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LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM
COMPONENT UNIT FINANCIAL REPORT
JUNE 30, 1998

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewed, orally 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 JUN 17 1998



LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM
COMPONENT UNIT FINANCIAL REPORT
JUNE 30, 1999



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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 general-purpose financial statements of the Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of and for the years ended June 30, 1998 and 1997, as listed in the table of contents. These general-purpose financial statements are the responsibility of LASERS' management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

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 general-purpose financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets as of June 30, 1998 and 1997, and the changes therein for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 1998, on our consideration of LASERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

As discussed in Note D to the financial statements, in the year ended June 30, 1995, LASERS adopted Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Our audits were 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 audits 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 or any other form of assurance on any supplementary information prior to June 30, 1993.

Paul H. ... / ...

Ernst & Young, Louisiana
September 14, 1998





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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the general-purpose financial statements of Louisiana State Employees' Retirement System (LASERS), a component unit of the State of Louisiana, as of and for the year ended June 30, 1998, and have issued our report thereon dated September 14, 1998. 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 LASERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LASERS' 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 of 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 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.

Baton Rouge, Louisiana
September 14, 1998

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

**STATEMENTS OF PLAN NET ASSETS
JUNE 30, 1998 AND 1997**

	1998	1997
ASSETS		
Cash and cash equivalents (at fair value)	\$ 25,317,786	\$ 25,196,687
Receivables:		
Employer contributions	17,354,212	15,579,991
Member contributions	80,190,869	8,625,192
Interest and dividends	36,498,999	38,525,364
Investment proceeds	36,180,251	259,043,757
Open investment contracts	177,009,592	549,844,099
Other	2,834,589	1,894,787
Total receivables	<u>359,939,194</u>	<u>852,825,410</u>
Investments (at fair value):		
Short-term investments	51,374,796	88,550,499
U. S. Government obligations	798,622,140	875,194,877
Bond/fixed income - Domestic	734,758,456	809,141,529
Bond/fixed income - International	472,978,518	432,186,354
Equity securities - Domestic	2,654,354,444	1,627,870,326
Equity securities - International	886,617,388	824,796,562
Real estate investments	98,319,460	104,511,589
Various capital	64,347,425	84,991,329
Total investments	<u>5,521,751,652</u>	<u>4,798,845,655</u>
Property and equipment:		
Land	889,816	888,816
Building and improvements	4,829,481	4,781,895
Equipment	9,456,781	7,537,938
	<u>15,219,932</u>	<u>13,069,341</u>
Accumulated depreciation	(5,418,444)	(4,889,082)
Total property and equipment	<u>9,801,478</u>	<u>8,130,225</u>
TOTAL ASSETS	<u>\$ 6,226,196,452</u>	<u>\$ 5,687,184,941</u>
LIABILITIES		
Investment commitments payable	33,193,251	80,826,740
Accounts payable - open investment contracts	177,009,592	549,844,099
Accounts payable and other accrued liabilities	8,735,087	8,716,818
	<u>218,937,929</u>	<u>639,387,657</u>
TOTAL LIABILITIES	<u>\$ 218,937,929</u>	<u>\$ 639,387,657</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 5,998,407,628</u>	<u>\$ 5,048,196,314</u>

(A schedule of funding progress is presented on page 28)

The accompanying notes are an integral part of these statements.



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

**STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997**

	<u>1998</u>	<u>1997</u>
ADDITIONS		
<i>Contributions</i>		
Employer contributions	\$ 218,680,004	\$ 204,985,747
Member contributions	128,734,455	178,793,791
Total contributions	<u>347,414,459</u>	<u>383,779,538</u>
<i>Investment Income:</i>		
Net appreciation in fair value of investments	418,577,260	345,097,126
Interest and dividends	182,865,635	180,838,685
Other investment income	3,736,402	3,366,589
	<u>605,179,297</u>	<u>529,292,400</u>
Less investment expense	<u>17,162,512</u>	<u>15,343,692</u>
Net investment income	<u>588,016,785</u>	<u>513,948,708</u>
Other income	<u>10,177,209</u>	<u>8,600,385</u>
Total additions	<u>945,790,459</u>	<u>1,016,430,651</u>
DEDUCTIONS		
Retirement benefits	338,623,826	340,052,578
Refunds of member contributions	32,136,373	28,945,408
Administrative expenses	8,783,584	4,531,457
Other	3,584,982	2,042,483
Total deductions	<u>483,128,765</u>	<u>475,571,926</u>
NET INCREASE	<u>462,661,694</u>	<u>540,858,725</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>5,084,596,114</u>	<u>4,543,737,389</u>
End of year	<u>\$ 5,547,257,808</u>	<u>\$ 5,084,596,114</u>

The accompanying notes are an integral part of these statements.



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

General Organization

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 401 of the Louisiana Revised Statutes (LRS).

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 they are able to impose their will on that organization or if there is a potential for the organization to provide specific financial burdens to or to impose specific financial burdens on the System. The System also determined whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the System.

Plan Membership

The System is one of several public retirement systems in Louisiana. Each has specific membership requirements established by legislation with LASERS established for state officers and employees and their beneficiaries. Other public employees report members who assumed membership in LASERS upon transfer to other public systems or as provided by specific legislation. A summary of government employees and members participating in LASERS at June 30, 1998 and 1997, follows:

Type of Employee	1998		1997	
	Number of Employees	Number of Members	Number of Employees	Number of Members
State Agencies	264	69,178	241	69,278
Other Public Employees	144	171	124	166
	<u>408</u>	<u>69,349</u>	<u>365</u>	<u>69,444</u>

Type of Active Members

Regular State Employees	62,993	62,865
Corrections Employees	3,868	3,818
Judges	213	243
Wildlife Agents	186	188
Legislators	84	90
Active Employees - Other DRO's	485	345
Total Active Members	<u>67,809</u>	<u>67,449</u>

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION (continued)

Plan Membership (continued)

At June 30, 1998 and 1997, membership consisted of:

	<u>1998</u>	<u>1997</u>
Retirees and beneficiaries currently receiving benefits	28,126	27,798
Terminated vested employees not yet receiving benefits	1,094	1,090
Deferred retirement option plan participants	2,796	2,562
Terminated nonvested employees who have not withdrawn contributions	25,481	22,623
Current active members	<u>69,587</u>	<u>69,444</u>
	<u>127,084</u>	<u>123,517</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 government may, at their option, become members of LASERS.

Retirement and Other Benefits

Retirement

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 sixty upon completing ten years of creditable service. Effective January 1, 1998, members may choose to retire with 28 years of service at any age, with an actuarially reduced benefit.

The basic annual retirement benefit for substantially all members is equal to 2-1/2% of average compensation multiplied by the number of years of creditable service.

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 basic retirement benefit, a member may elect to receive his retirement benefits under any one of four 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

A. PLAN DESCRIPTION (continued)

Retirement and Other Benefits (continued)

A member having 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 accrued and contributions. The minimum service requirements for benefits vary depending upon the member's employer and service classification but generally is 10 years of service.

Deferred Benefits

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 plan is irrevocable once participation begins. Interest 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.

Current membership in the DROOP program is 2,366 members at June 30, 1998 and 2,162 at June 30, 1997.

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 an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. Such amount may be withdrawn or remain in the IBO account earning interest at the same rate as the DROOP account.

Retirement Incentive Legislation

By act of legislature early retirement was available for members who so elected after meeting certain requirements and these benefits were actuarially equivalent to normal retirement. Effective August 14, 1995, this benefit is no longer available.

Disability Benefits

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

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION (continued)

Retirement and Other Benefits (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 full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the 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 survivor's benefit. Benefit increases have occurred under the Statutes in various years since 1990 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, 1996.

On 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 gains as determined by LASERS' actuary. Funds accrue in the account until such time as there are sufficient amounts to grant a cost-of-living adjustment. The balance in this account was approximately \$235,079,800 and \$212,648,000 at June 30, 1998 and 1997, respectively.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basic of Accounting

LASERS' financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Investment purchases and sales are recorded as of their trade date. State fund appropriations for supplemental benefits are recognized when drawn from the State Treasury. Employer and member contributions are recorded in the period the related salaries are earned. Administrative expenses are funded exclusively from investment earnings and are subject to budgetary control of the Board of Trustees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Use of 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.

Method Used to Value Investments

As required by GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, investments are reported at fair value (GASB #25 was first adopted in year ended June 30, 1993). 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 estimated 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.

Under the GASB requirement, pension plan investments and financial statements are subject to market fluctuations that can rapidly change the market value on a day-to-day basis. Such market swings can create material changes in unrealized appreciation (depreciation) of investments. Subsequent to June 30, 1998, the market has experienced severe day-to-day fluctuations that could be material. LASERS is a long-term investor whose overall investment decisions and policies are not based on daily market swings.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 5 to 15 years for equipment and furniture.

LAMESI 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
Ethics Commission
Municipal Fire and Police Civil Service

Compensated Absence

The System pays a lump sum amount for a maximum of 300 hours of accrued personal leave upon termination of employees. Accumulated personal leave (including benefits) of employees directly related to the administration of the System is accrued in the financial statements when earned.

Reclassification

Certain amounts in the 1997 financial statements have been reclassified to conform to the 1998 presentation.

C. CONTRIBUTIONS

Member Contributions

Member contribution rates for the System are established by Louisiana Revised Statute 11:62. 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 1997, for the various types of members are as follows:

Type	% of Earned Compensation	
	1998	1997
Judges, court officers and legislators, the Governor and Lt. Governor	11.3%	11.3%
Clerk of the House of Representatives and Secretary of the Senate	9.3%	9.3%
Certain Department of Corrections employees	8.8%	8.8%
Certain Department of Wildlife and Fisheries and Bridge Police employees	8.3%	8.3%
All others	7.3%	7.3%

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

C. CONTRIBUTIONS (continued)

A savings account is established for member contributions less amounts transferred to retirees 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.

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 11:004-11:004 annually by the Actuarial Forecasting Committee as shown below for the years ended June 30, 1998 and 1997.

	<u>1998</u>	<u>1997</u>
Percent of members' earned compensation	13.0%	12.4%

The State's pension cost and net pension obligation to LASERS for the year ended June 30, 1998 is as follows:

Annual required contribution	\$171,953,246
Interest on net pension obligation	158,988
Adjustment to annual required contribution	<u>(84,245)</u>
Annual pension cost-interest adjusted to end of year	227,259,499
Contributions made	<u>(105,882,178)</u>
Increase (decrease) in net pension obligation	121,377,321
Net pension obligation beginning of year	<u>1,822,284</u>
Net pension obligation end of year	<u>\$1,943,661</u>

The Annual Pension Cost (APC) has been adjusted with interest at the valuation rate to the end of the fiscal year in accordance with GASB's Statement No. 25.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC) <u>(Value in Millions)</u>	Percentage of APC <u>Continued</u>	Net Pension Obligation
6/30/96	\$ 206,814,066	93.8	(\$ 4,006,582)
6/30/97	214,871,980	93.3	1,922,184
6/30/98	227,259,499	93.2	(9,670,481)



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

GUIDE TO FINANCIAL STATEMENTS

C. CONTRIBUTIONS (continued)

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 member's current system. The transferring system is required to transfer to member's 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.

D. CASH AND INVESTMENTS

Cash and Cash Equivalents

Cash and cash equivalents include cash deposited in banks and short term repurchase agreements. This amount is insured by the Federal Deposit Insurance Corporation up to \$100,000 and is collateralized by the pledge of government securities held by the agents in the entity's name.

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 individual investor of ordinary prudence exercises in the management of large investments entrusted to him 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 65% 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 such objectives, rules and guidelines as of June 30, 1998:

Short-Term Investments

The policy for these types of holdings are: short-term funds may be invested in direct U. S. Government obligations such as U. S. Treasury bills 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 Canadian Bank or other short-term investment vehicles designated by the Board.

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

D. CASH AND INVESTMENTS (continued)

Short-term Investments (continued)

Funds may be invested in commercial paper subject to the following guidelines: Only U. S. dollar denominated paper of domestic companies will be used, 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. No more than \$10 million is to be invested in commercial paper of any one issuer.

The maximum maturity for commercial paper purchased with the cash reserves of any investment advice shall be established by such advisor. However, under no circumstances will commercial paper having a maturity of longer than 270 days be purchased without prior Board approval.

Domestic Equity Securities

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.

Basically, investment managers are limited to any one holding not to exceed 5% of market value of their managed portfolio. One manager is allowed to go to 8%. The purchase of stocks or convertibles in foreign companies through American Depository Receipts (ADRs), 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 the required equity standards aforementioned.

Equity securities, including domestic and international common stocks, are limited to 65% of the total assets of the System on a market basis as set by the policy of the Board of Trustees.

Domestic Debt 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 8% of the market value of LASERS' domestic fixed income assets may be invested in the debt securities of any one issuer, except new managers can invest up to 8% of their portfolios. 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 Manual.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

IV. CASH AND INVESTMENTS (continued)

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 allocations 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.

No one holding in an international equity portfolio shall account for more than 6% of the portfolio at market value or more than 2% of the outstanding common stock of any one corporation.

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 6% of the global bond portfolio, at market value.

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 a direct investment in the property located at the intersection of Boers Lane and United Plaza Boulevard in Baton Rouge, Louisiana, investments in commingled real estate pools (both open and closed end) or real estate investment trusts (REITs), and 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 FNMA, FHLMC, and GNMA. 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 65% limit on all equity investments.

Real estate investments consist of 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 changes in market values of the underlying properties, lease income and capital gains.

Options

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

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

B. CASH AND INVESTMENTS (continued)

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 65% of total fund assets. Reserves for future Private Capital Market Investments may be held in large capitalization U. S. equities, subject to the 65% limit on all equity investments.

Other

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

Derivatives

LASERS invests in various mortgage-backed securities such as interest-only strips and principal-only strips. LASERS invests in interest-only strips, 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 pre-payment 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 off mortgages longer than anticipated, the cash flows are greater and the return on the investment would be higher than anticipated.

LASERS invests in principal-only strips, 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 collection of principal payments to be extended longer than anticipated. Conversely, if interest rates decline and homeowners refinance mortgages, thereby pre-paying the mortgages underlying these securities, the principal payments would be earlier than anticipated.

LASERS enters into contractual commitments involving financial instruments with off-balance sheet risks. These financial instruments include forward contracts, futures contracts and options contracts and are entered into to hedge against foreign exchange rate risk.

Forward and futures contracts are for the delayed delivery of securities and/or contracts 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.

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

D. CASH AND INVESTMENTS (Continued)

Options (continued)

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.

General

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, 1998 and 1997, are categorized herein following to give an indication of the level of risk assumed by the entity. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured 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 uninsured 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, 1997, was the same as that shown herein following for investments held at June 30, 1998.

	Category			Carrying Amount (Fair Value)	Carrying Amount (Fair Value)
	1	2	3	6/30/98	6/30/97
Short-term Investments	\$ 51,124,236	-	-	\$ 51,124,236	\$ 88,258,499
Corporate Bonds	774,756,436	-	-	774,756,436	883,141,525
U.S. Treasury Bonds	58,352,461	-	-	58,352,461	30,196,820
U.S. Government Agency Bonds	511,787,278	-	-	511,787,278	493,178,826
International Fixed Income/Bonds	431,970,318	-	-	431,970,318	431,180,234
U.S. Treasury Notes	188,282,301	-	-	188,282,301	347,818,219
Domestic Equity Securities	2,494,324,449	-	-	2,494,324,449	1,627,878,228
International Equity Securities	885,617,286	-	-	885,617,286	824,796,562
Total categorized	<u>\$2,338,412,165</u>	<u>-</u>	<u>-</u>	3,358,449,365	4,649,738,941
Real Estate Pools				88,219,469	184,213,219
Venture Capital				64,347,422	44,200,379
Total Investments				<u>\$ 3,511,016,256</u>	<u>\$ 4,798,152,539</u>

The System is also authorized by policy to contractually loan securities to investment brokers. The contract of a security loan provides that LASERS loan specific securities from its holdings to the broker in return for collateral. Securities under loan are maintained on the System's financial records and are classified in the

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

D. CASH AND INVESTMENTS (continued)

Investments (continued)

preceding summary 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. (See Note E)

The System has no investments of any single organization (other than those owned 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.

During fiscal years 1998 and 1997, the System's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value by \$416,577,205 and \$345,187,326, respectively.

This appreciation includes the following:

	<u>1998</u>	<u>1997</u>
Increase (decrease) in fair value of investments held at year end	\$ 148,470,845	\$ 250,058,412
Realized gains (losses) on investments sold during the year	<u>276,106,362</u>	<u>295,128,914</u>
	<u>\$ 416,577,207</u>	<u>\$ 545,187,326</u>

Realized gains includes all sales of investment assets during the year measured between the sales proceeds and the purchase cost or amortized cost of the investment asset sold and is independent of the calculation for investments held at year end. Unrealized gains and losses in investments sold in current year that had been held for more than one year was included in the net appreciation (depreciation) reported in the prior year(s) and the current year.

E. SECURITIES LENDING PROGRAM

State statute does not prohibit the System from participating in securities lending transactions, and the System has entered into a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company ("State Street") to act as agent in lending the System's securities to broker-dealers and banks pursuant to a form of loan agreement. All investment assets are available for lending.

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

E. SECURITIES LENDING PROGRAM (continued)

During the Fiscal Years, State Street lent, on behalf of the System, certain securities held by State Street as custodian and received cash (both United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the Fiscal Years on the amount of the loans that State Street made on its behalf and State Street indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the Fiscal Years. Moreover, there were no losses during the Fiscal Years resulting from a default of the borrowers or State Street.

During the Fiscal Years, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such investment pool as of June 30, 1998 was 99 days. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On June 30, 1998 the System had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the System as of June 30, 1998 were approximately \$599,250,702 and \$480,008,711, respectively. Securities loan as of June 30, 1998, were Government and Agency securities of \$145,820,880; Domestic equities of \$388,244,243; Domestic fixed income of \$17,479,450; International equities of \$427,511,217 and International fixed income of \$73,652,981.

F. OPEN INVESTMENT CONTRACTS

Open investment contracts include forwards and futures contracts for the delayed delivery of currencies at a future date. The amounts that clear within the same broker/banks and consist of the same currency are offset. The receivables and payables include the same currencies clearing through different brokers/banks and LASERS has no right of offset. The System expects no significant loss or gain from these transactions.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

G. ACTUARIAL INFORMATION

Subsequent to the System's actuary issuing his final actuarial report for the year ended June 30, 1998, it was discovered that some social security records were omitted from the data furnished to the actuary. The System's estimate of this omitted is approximately \$80 and according to the actuary, his estimate of the effect to the liability (unfunded actuarial liability) for these records is approximately \$90 million and understates the projected employer contribution by \$4.7 million. The error will be amortized starting in the June 30, 1999 valuation over the remaining 31 years funding target period and future contributions adjusted appropriately.

The correct system information will be provided to the actuary prior to the January meeting of the Public Retirement Systems Actuarial Committee. The employer contribution for fiscal year 1999-2000 and the accompanied liability will be presented to the Committee.

H. REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION



LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

**SCHEDULE OF FUNDING PROGRESS
FOR THE SIX YEARS ENDED JUNE 30, 1998**
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (AAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UOAL as a Percentage of Covered Payroll (B-C)/C
6/30/93	\$ 3,044,717	\$ 3,110,480	\$ 2,076,683	59.4%	\$ 1,384,347	138.2%
6/30/94	3,347,802	3,403,394	2,035,792	61.9%	1,546,465	132.9%
6/30/95	3,687,863	3,698,989	2,031,048	64.7%	1,547,977	131.2%
6/30/96	4,134,461	6,234,485	2,139,944	65.8%	1,584,357	135.1%
6/30/97	4,577,917	6,488,361	1,911,444	69.9%	1,687,371	121.4%
6/30/98	5,067,305	6,933,086	1,865,781	71.9%	1,653,863	114.0%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by \$463,795,332 from June 30, 1993 to June 30, 1998. There were no changes in benefit provisions during the year. There was a net experience gain of \$92,217,582 after allocating \$184,548,998 of assets investment income to the Department Account in accordance with Act 803. A COLA was granted to retirees on July 1, 1998, which reduced the Experience Account by \$90,049,598.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE SIX YEARS ENDED JUNE 30, 1998**

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1993	\$ 183,503,100	98.5%
1994	189,368,536	98.7%
1995	195,931,080	103.5%
1996	265,362,677	99.2%
1997	212,231,189	98.4%
1998	221,833,246	104.9%

Analysis of the percentage contributed over a period of years will give a relative indication of the funding progress for the liabilities of the Louisiana State Employers' Retirement System.

The difference between the Annual Required Contributions and the Annual Pension Cost is the amortization payment for the Net Pension Obligation.



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

ACTUARIAL METHODS AND ASSUMPTIONS

JUNE 30, 1998

The information presented in the required 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	July 1, 1998
Actuarial cost method	Projected unit credit
Amortization method	Increasing annuity to 2029
Remaining amortization period	31 years
Asset valuation method	Bonds at actuarial cost and all other investments based on a four year average market value
Actuarial assumptions:	
Investment rate of return	8.25% per annum*
Mortality	Mortality rates were projected based on the 1983 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 (1981-1986) 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 (1982-1986) experience study of the System's members.*
Cost-of-living adjustments	None.

*Includes inflation at 3.00%.

SUPPORTING SCHEDULES



MUTUAL STATE EMPLOYEES RETIREMENT SYSTEM

**REVENUES OF RETIREMENT SYSTEM, ADDITIONAL REVENUES
FOR THE TWENTY-NINE MONTH PERIOD ENDING 12/31/1998**

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Other Revenues		Total	Total Annual Contractual Benefit	Percentage of Total
				Interest	Other			
1998	\$ 4,851,346	\$ 17,980,009	\$ 53,113,813	\$ 7,862,079	\$ 289,781,978	\$ 1,246,489,341	11.1	
1999	10,181,972	30,721,987	271,175,969	6,289,474	308,441,919	1,226,893,081	7.4	
2000	10,488,134	18,781,549	179,888,911	5,492,582	488,129,066	1,268,179,924	12.4	
2001	10,550,475	20,871,568	171,568,134	11,463,684	482,983,928	1,284,178,484	14.1	
2002	11,443,628	17,487,803	129,714,296	8,470,817	412,093,148	1,294,341,288	11.8	
2003	11,243,807	19,008,640	214,178,484	44,081,204	479,504,115	1,286,864,038	11.9	
2004	11,270,024	19,540,000	206,640,000	21,669,024	470,089,078	1,419,370,000	11.9	
2005	12,073,414	19,486,674	181,812,289	29,211,719	471,897,081	1,495,298,943	12.8	
2006	12,709,776	20,283,737	176,893,621	9,950,249	479,276,342	1,671,141,247	12.4	
2007	12,734,400	21,580,004	422,178,122	11,077,248	487,569,822	1,688,848,342	12.8	

EXPENSES BY TYPE

Fiscal Year	Benefits	Adminstrative	Investment	Other	Total
1999	274,898,884	2,171,478	907,700	-	278,080,062
2000	282,953,119	2,861,989	1,281,282	-	287,116,390
2001	284,978,452	1,461,468	4,219,271	438,983	291,098,174
2002	281,820,728	2,148,174	7,081,208	393,174	291,443,284
2003	279,580,280	4,997,926	6,928,476	926,178	292,532,860
2004	278,444,478	4,148,082	6,888,271	1,724,124	291,205,955
2005	277,588,115	4,396,688	12,318,682	2,007,146	296,310,631
2006	282,882,078	4,331,487	15,010,882	2,142,441	304,366,788
2007	289,420,428	6,181,364	17,062,771	2,461,641	315,126,204

*Include a payment from the State Treasury as a result of a settlement of Texas litigation.

** Audit 25 was prepared in 1998 and applied retroactively to July 1, 1998. As a result, investment income includes net commission adjustments in the rate of investment fee (see August 1998, 2002 and corresponding footnotes). Prior to 1998, the amount's report of fee income was recorded according to separate calculations of investment income which differ from the financial statements which were used in investment reports.

MISSISSIPPI STATE EMPLOYERS' RETIREMENT SYSTEM
 SCHEDULE OF ACTUALS, BUDGETS AND VARIANCES
 EXPENSES, REVENUE AND ACTUAL OVER/UNDER

FOR THE YEARS ENDED JUNE 30, 1997 AND 1992

	1997		1992			
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Administrative expenses:						
Salaries and related benefits:						
Travel	\$ 127,793	\$ 250,780	\$ 122,987	\$ 179,401	\$ 272,870	\$ 153,469
Operating services	1,224,581	1,081,593	142,988	1,059,357	1,288,878	869,521
Supplies	127,643	181,448	58,805	122,369	148,289	25,920
Professional services	2,270,493	4,877,449	2,606,956	653,141	3,681,313	3,027,172
Capital acquisitions	3,348,864	2,839,826	509,038	2,694,215	3,604,889	300,674
Total budget and actual expenditures	8,944,368	13,871,096	4,926,728	7,125,485	11,180,259	4,054,774
Capitalization of capital assets	3,368,864	3,639,826	270,962	2,894,215	3,684,889	390,674
Total administrative expenses	\$ 12,313,232	\$ 17,510,922	\$ 5,197,690	\$ 10,019,700	\$ 14,865,148	\$ 4,655,448
Investment expenses	\$ 17,182,273	\$ 16,486,791	\$ 695,482	\$ 15,140,889	\$ 14,889,839	\$ 2,251,050

LOUISIANA STATE EMPLOYERS' RETIREMENT SYSTEM

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

FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	1998			1997	
	Board Meetings Attended	Other Meeting Dates	Amount	Board Meetings Attended	Amount
Cynthia Bridges	11	10	\$ 1,375	12	\$ 900
Virginia Burton	10	9	1,425	12	900
Mary Young Cannon	11	10	1,375	12	900
Leta Smith Deyle	11	10	1,375	12	900
Benny Harris	12	10	1,600	9	675
Frank Jeter, Jr.	12	10	1,600	12	900
Barbara McManis	11	9	1,425	9	675
Leola Oates, Chairman	11	9	1,500	11	825
Kathy Stephens	12	11	1,725	12	900
Total			\$ 14,100		\$ 7,575

May - Effective August, 1997, board members are paid a per diem of \$75 per day for board meetings and other meetings. Generally, meetings are held for two consecutive days each month. During the fiscal year ended June 30, 1998, there was a possible of 23 days for which board members could be compensated.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENTS AT AMORTIZED COST
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
Short-term Investments	\$ 90,976,163	\$ 88,958,503
Corporate Bonds	777,887,679	760,902,686
U.S. Treasury Bonds	53,847,674	29,891,193
U.S. Government Agency Bonds	512,607,312	515,580,306
International Bonds/Fixed Income	486,864,782	431,340,083
U.S. Treasury Notes	185,614,952	244,596,897
Domestic Equities	1,897,409,115	1,793,416,587
International Equities	793,990,293	632,536,281
Real Estate Pools	79,274,085	94,258,768
Venture Capital	<u>52,180,343</u>	<u>49,595,175</u>
Total	<u>\$ 4,749,132,089</u>	<u>\$ 4,158,133,501</u>



Postlethwaite & Netterville

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September 23, 1998

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

In planning and performing our audit of the financial statements of the Louisiana State Employees' Retirement System (LASERS) as of and for the year ended June 30, 1998, we considered the System's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and we to provide assistance on the internal control structure.

However, during our audit we became aware of several matters that we find are opportunities for strengthening internal controls and operating efficiency. The items discussed below summarize our comments and suggestions regarding these matters. This letter does not affect our report dated September 14, 1998, on the financial statements of the Louisiana State Employees' Retirement System. It is our understanding that LASERS' management will address our comments and recommendations in a formal response that will be forwarded to the Office of the Legislative Auditor, State of Louisiana.

1. Board Compensation

It became apparent during our audit that the System's controls over Board compensation need to be modified because several Board members were paid for meetings they did not attend. We understand that LASERS has been reimbursed or made arrangements for reimbursements as of the date of this letter.

We recommend that management change their procedures regarding Board compensation.

2. Actuarial Calculations

We discovered while testing pension benefit obligations that certain participants were not included in the data files furnished to the System's actuary. As of the date of this letter LASERS' personnel have stated that they have basically initiated the problem and determined the extent of the omission but are continuing to investigate to insure that no other problems exist.

We recommend that management change their procedures to be certain that year end data furnished to the System's actuary is complete and accurate.

We would like to express our appreciation for the cooperation and comments extended to us during our audit by all of the System's personnel. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Richard D. Matthews



Louisiana State Employees' Retirement System

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September 25, 1998

Dr. Dan Kyle, Legislative Auditor
State of Louisiana
1600 North Third Street
Post Office Box 94360
Baton Rouge, LA 70804-0367

Dear Dr. Kyle:

LASERS has received the management letter recommendations from Poindexter and McArthur in connection with the audit for year-end June 30, 1998. Accordingly, we offer the following responses:

1. Board Compensation

LASERS currently cuts one check monthly for each Trustee for Board compensation fees. Each check is distributed to the appropriate Trustee on the second day of the meetings. This has caused incorrect payments to three of five Trustee on one occasion.

This methodology will be changed effective immediately to a system whereby the checks will be mailed the week after the meetings. This will ensure that pay claim fees for Trustees are not paid in error.

2. Actuarial Calculations

LASERS currently runs the retiree actuarial tape in July against retirement data as of June 30th and the member actuarial tape in August after all member contributions have been posted for the fiscal year.

If someone retired after June 30th, but before the Member file was processed, the program left that retiree off both tapes.

A program "bug" was also found which incorrectly excludes retirees whose retirement was effective before June 30th but didn't get their first check until July. The program has been including retirees when the fiscal year gross paid out equaled zero.

LASERS will improve controls by:

- Correcting the actuarial tape program;
- Running both tapes at the same time; and
- Verifying the actuarial record counts with controls run against our Member and Retiree databases.

Sincerely,



James D. Wood
Executive Director