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**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**COMPONENT UNIT FINANCIAL REPORT**

**JUNE 30, 1999**

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

Release Date ~~06/07/1999~~

**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

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**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, 1999 and 1998, 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, 1999 and 1998, 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 12, 1999, on our consideration of LASERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
September 12, 1999

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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, 1999, and have issued our report thereon dated September 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of LASERS in a separate letter dated September 12, 1999.

This report is intended for the information of the Board of Trustees, management and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
September 12, 1999



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**STATEMENTS OF PLAN NET ASSETS**

**JUNE 30, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>		
Cash and cash equivalents (at fair value)	\$ 33,613,748	\$ 30,332,484
Receivables:		
Employer contributions	16,246,444	17,254,232
Member contributions	10,055,069	10,190,069
Interest and dividends	36,759,025	36,490,591
Investment proceeds	78,061,317	26,110,251
Open investment contracts	166,183,868	177,039,592
Other	1,740,666	2,854,399
Total receivables	<u>309,046,389</u>	<u>269,939,134</u>
Investments (at fair value):		
Short-term investments - Domestic	53,850,549	22,522,764
Short-term investments - International	27,682,128	28,601,472
U. S. Government obligations	723,487,323	758,622,140
Bonds/Fixed Income - Domestic	786,967,309	774,756,436
Bonds/Fixed Income - International	493,529,244	432,970,518
Equity securities - Domestic	2,586,739,268	2,406,345,625
Commingled equity trust - Domestic	115,176,657	48,008,824
Equity securities - International	975,864,702	886,617,386
Real estate investments	67,281,259	98,519,463
Alternative investments	117,148,756	64,347,425
Total investments	<u>5,947,727,195</u>	<u>5,521,312,053</u>
Property and equipment:		
Land	889,816	889,816
Building and improvements	4,874,328	4,839,405
Equipment	7,314,400	9,496,701
	<u>13,078,544</u>	<u>15,225,922</u>
Accumulated depreciation	(6,131,322)	(5,418,444)
Total property and equipment	<u>6,947,222</u>	<u>9,807,478</u>
<b>TOTAL ASSETS</b>	<u>6,297,334,554</u>	<u>5,831,391,149</u>
<b>LIABILITIES</b>		
Investment commitments payable	118,313,904	31,193,251
Accounts payable - open investment contracts	166,183,868	177,039,592
Accounts payable and other accrued liabilities	9,248,047	14,750,678
<b>TOTAL LIABILITIES</b>	<u>293,745,819</u>	<u>222,983,521</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<u>\$ 6,003,588,735</u>	<u>\$ 5,608,407,628</u>

(A schedule of funding progress is presented on page 21)

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, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
<b>ADDITIONS</b>		
Contributions:		
Employer contributions	\$ 218,929,941	\$ 219,680,934
Member contributions	135,479,230	129,724,456
Total contributions	<u>354,409,171</u>	<u>349,405,390</u>
Investment Income:		
Net appreciation in fair value of investments	288,197,600	416,577,203
Interest and dividends	195,863,544	202,065,626
Other investment income	2,215,401	3,736,407
	<u>486,276,545</u>	<u>622,379,236</u>
Less investment expense	<u>16,071,796</u>	<u>17,162,772</u>
Net investment income	<u>470,204,749</u>	<u>605,216,464</u>
Other income	<u>9,175,049</u>	<u>10,177,305</u>
Total additions	<u>833,788,969</u>	<u>964,799,159</u>
<b>DEDUCTIONS</b>		
Retirement benefits	397,966,405	359,625,826
Refunds of member contributions	31,851,567	32,156,373
Administrative expenses	6,011,305	6,703,504
Other	2,778,585	2,501,942
Total deductions	<u>438,607,862</u>	<u>400,987,645</u>
NET INCREASE	395,181,107	563,811,514
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	<u>5,608,407,628</u>	<u>5,044,596,114</u>
End of year	<u>\$ 6,003,588,735</u>	<u>\$ 5,608,407,628</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 employers report members who retained membership in LASERS upon transfer to other public systems or as provided by specific legislation. A summary of government employers and members participating in LASERS at June 30, 1999 and 1998, follows:

<u>Type of Employer</u>	<u>1999</u>		<u>1998</u>	
	<u>Number of Employers</u>	<u>Number of Members</u>	<u>Number of Employers</u>	<u>Number of Members</u>
State Agencies	251	67,501	250	69,778
Other Public Employers	125	179	127	171
	<u>376</u>	<u>67,680</u>	<u>377</u>	<u>69,949</u>
 <u>Type of Active Members</u>				
Regular State Employees		60,807		62,993
Corrections Employees		5,493		5,868
Judges		316		333
Wildlife Agents		219		186
Legislators		78		84
Active Employees - After DROP		767		485
Total Active Members		<u>67,680</u>		<u>69,949</u>





**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**A. PLAN DESCRIPTION** (continued)

**Plan Membership** (continued)

At June 30, 1999 and 1998, membership consisted of:

	<u>1999</u>	<u>1998</u>
Retirees and beneficiaries currently receiving benefits	29,283	28,326
Terminated vested employees not yet receiving benefits	1,027	1,094
Deferred retirement option plan participants	2,316	2,766
Terminated nonvested employees who have not withdrawn contributions	24,397	23,451
Current active members	<u>67,680</u>	<u>69,949</u>
	<u>124,703</u>	<u>125,586</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 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. Additionally, members may choose to retire with 20 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 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 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 (DROP). When a member enters DROP, 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 DROP participation period, the retiree's retirement benefits are paid into a special account. The election 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 that have accumulated in the DROP account.

Current membership in the DROP program is 2,316 members at June 30, 1999 and 2,766 at June 30, 1998.

Effective January 1, 1996, members eligible to retire and who do not choose to participate in DROP 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 DROP account.

**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 deceased. 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 survivors' benefit. Benefit increases have occurred under the Statutes 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.

Previously, 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 as there are sufficient amounts to grant a cost-of-living adjustment. The balance in this account was approximately \$365,144,000 and \$255,079,000 at June 30, 1999 and 1998, respectively.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis 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.



# LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

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

#### 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. 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.

Pension plan investments and financial statements are subject to market fluctuations that can rapidly change the fair value on a day to day basis. Such market swings can create material changes in unrealized appreciation (depreciation) of investments. LASERS is a long-term investor whose overall investment decisions and policies are not based on daily market swings.

#### 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  
Ethics Commission  
Municipal Fire and Police Civil Service



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Compensated Absences**

The System pays a lump sum amount for a maximum of 300 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.

**Reclassifications**

Certain amounts in the 1998 financial statements have been reclassified to conform to the 1999 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, 1999 and 1998, for the various types of members are as follows:

<u>Type</u>	<u>% of Earned Compensation</u>	
	<u>1999</u>	<u>1998</u>
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 and Bridge Police employees	8.5%	8.5%
All others	7.5%	7.5%

A 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.



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**C. CONTRIBUTIONS** (continued)

**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 11:101-11:104 annually by the Actuarial Forecasting Committee as shown below for the years ended June 30, 1999 and 1998.

	<u>1999</u>	<u>1998</u>
Percent of members' earned compensation	12.4%	13.0%

The State's pension cost and net pension obligation to LASERS for the year ended June 30, 1999 is as follows:

Actuarial required contribution	\$226,387,848
Interest on net pension obligation	( 797,808)
Adjustment to annual required contribution	<u>2,643,222</u>
Annual pension cost-interest adjusted to end of year	228,233,262
Contributions made	<u>(231,043,705)</u>
Increase (decrease) in net pension obligation	( 2,810,443)
Net pension obligation beginning of year	<u>( 9,670,401)</u>
 Net pension obligation end of year	 <u>(\$ 12,480,844)</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**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC) (Value at MidYear)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/97	\$ 214,971,990	97.3	\$ 1,922,284
6/30/98	221,250,489	105.2	( 9,670,401)
6/30/99	228,233,262	101.2	( 12,480,844)



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES 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 institutional investor of ordinary prudence exercises in the management of large investments entrusted to it not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income. The revised statutes also prohibit 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 that 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, 1999:*

**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 Custodian Bank or other short-term investment vehicles designated by the Board.



# LOUISIANA STATE EMPLOYEES' 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 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.

#### Domestic Equity Securities

Domestic equity purchases are limited to common stocks traded over the counter or on a domestic stock exchange. Uncommitted investment manager allocations may be invested for a short term in the Stock Performance Index Futures Fund, a Commingled Equity Trust of the custodian bank to maintain equity exposure with the liquidity of a money market fund. Exceptions shall be approved by the Board in advance.

Basically, investment managers are limited to any one holding not to exceed 6% at 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 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 the required equity standards aforementioned.

#### 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 6% of the market value of LASERS' domestic fixed income assets may be invested in the debt securities of any one issuer, except two 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 Record.





**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**D. 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 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.

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.

The global bond portfolio may hold no more than 30% of its assets, at fair 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 Essen 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 that 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 objective of providing volatility protection on equity investments and an enhanced rate of return over time.



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**D. CASH AND INVESTMENTS** (continued)

**Alternative Investments**

Investments in Alternative Investments, including limited partnership agreements, private capital markets, venture capital and mezzanine debt, shall be limited to an initial investment value at market value of no more than 6% of total fund assets. Reserves for future Alternative 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 mortgagees, 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 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 risk. 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 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.



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**D. CASH AND INVESTMENTS (continued)**

**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, 1999 and 1998, 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, 1998, was the same as that shown herein following for investments held at June 30, 1999.

	<u>Category</u>			<u>Carrying</u> <u>Amount</u> <u>(Fair Value)</u> <u>6/30/99</u>	<u>Carrying</u> <u>Amount</u> <u>(Fair Value)</u> <u>6/30/98</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Short-term Investments	\$ 27,682,128	-	-	\$ 27,682,128	\$ 28,601,472
Bonds/Fixed Income - Domestic	786,967,309	-	-	786,967,309	774,756,436
U.S. Treasury Bonds	34,191,372	-	-	34,191,372	58,552,461
U.S. Government Agency Bonds	538,763,961	-	-	538,763,961	511,787,578
Bonds/Fixed Income - International	493,529,244	-	-	493,529,244	432,970,518
U.S. Treasury Notes	150,531,990	-	-	150,531,990	188,282,101
Equity Securities - Domestic	2,586,739,268	-	-	2,586,739,268	2,406,345,625
Equity Securities - International	<u>975,864,702</u>	-	-	<u>975,864,702</u>	<u>886,617,386</u>
Total categorized	<u>\$5,594,269,974</u>	<u>-</u>	<u>-</u>	5,594,269,974	5,287,913,577
Short-term Investment Pool				53,850,549	22,522,764
Commingled Equity Trust - Domestic				115,176,657	48,008,824
Real Estate Investments				67,281,259	98,519,463
Alternative Investments				<u>117,148,756</u>	<u>64,347,425</u>
Total Investments				<u>\$ 5,947,727,195</u>	<u>\$ 5,521,312,053</u>



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**D. CASH AND INVESTMENTS (continued)**

**Investments (continued)**

In addition to publicly traded equities, LASERS has entered into limited partnership agreements with different strategies that invest in real estate properties, domestic private equity, international private equity, and mezzanine debt. By making these investments, LASERS is seeking to attain investment returns of at least 13%. The total commitments were \$441,000,564 and \$234,000,564 as of June 30, 1999 and 1998, respectively. The total amount funded as of June 30, 1999 and 1998, on a cost basis was \$97,812,453 and \$52,190,243, respectively.

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 in return for collateral. Securities under loan are maintained on the System's financial records and are classified in the 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 required on the Statements of Net Plan Assets. (See Note E).

The System has no investments of any single organization (other than those issued 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 1999 and 1998, the System's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value by \$288,197,600 and \$416,577,203, respectively.

This appreciation includes the following:

	<u>1999</u>	<u>1998</u>
Increase (decrease) in fair value of investments held at year end	(\$ 91,395,071)	\$ 140,470,846
Realized gains on investments including currency sold during the year	<u>379,592,671</u>	<u>276,106,357</u>
	<u>\$ 288,197,600</u>	<u>\$ 416,577,203</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.

# LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

### **E. SECURITIES LENDING PROGRAM**

State statutes do not prohibit the System from participating in securities lending transactions, and the System has, pursuant to 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.

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 by the custodian, at its sole discretion, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool managed by the custodian. Income from the cash invested is allocated among the borrower, custodian bank, and the System per contractual arrangement. No direct costs are incurred by the System. The average duration of such investment pool as of June 30, 1999 was 76 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, 1999, 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, 1999 were approximately \$561,138,458 and \$500,630,041, respectively. Market value of securities, by type, lent as of June 30, 1999, were Government and Agency securities of \$148,302,818; Domestic equities of \$163,413,338; Domestic fixed income of \$20,688,763; International equities of \$123,378,606 and International fixed income of \$44,846,516.

The assets received as collateral on securities lending transactions are not available for the System or its agent to pledge or sell unless the borrower defaults. Therefore, per GASB 28, Paragraph 7, neither assets nor liabilities are reported on the Statements of Plan Net Assets.

**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**F. OPEN INVESTMENT CONTRACTS**

Open investment contracts include forwards and future 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.

**G. REQUIRED SUPPLEMENTARY INFORMATION**

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



**Postlethwaite & Netterville**  
*A Professional Accounting Corporation*

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Telephone (225) 922-4600 • FAX (225) 922-4611  
www.pncpa.com

**INDEPENDENT AUDITORS' REPORT**  
**ON SUPPLEMENTAL INFORMATION**

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

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.

The year 2000 supplementary information on page 23 is not a required part of the general purpose financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Louisiana State Employees' Retirement System is or will become year 2000 compliant, that the System's year 2000 remediation efforts will be successful in whole or in part, or that the parties with which the System's does business are or will become year 2000 compliant.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
September 12, 1999



**REQUIRED SUPPLEMENTARY INFORMATION**





**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULES OF FUNDING PROGRESS**  
**FOR THE SIX YEARS ENDED JUNE 30, 1999**  
(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
6/30/94	\$ 3,347,602	\$ 5,403,394	\$ 2,055,792	61.9%	\$ 1,546,465	132.9%
6/30/95	3,665,863	5,696,909	2,031,046	64.3%	1,547,977	131.2%
6/30/96	4,114,461	6,254,405	2,139,944	65.8%	1,584,357	135.1%
6/30/97	4,537,917	6,489,361	1,951,444	69.9%	1,607,371	121.4%
6/30/98	5,067,795	6,953,096	1,885,301	72.9%	1,653,863	114.0%
6/30/99	5,574,958	7,582,856	2,007,898	73.5%	1,736,963	115.6%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by \$629,760,494 from June 30, 1998 to June 30, 1999. There were de minimus changes in benefit provisions during the year. The experience account increased to \$365,143,591 at June 30, 1999. Changes in the experience account for the year ended June 30, 1999, includes increases of \$119,571,018 for excess investment income and of \$33,409,018 of accumulated interest on the fund balance and a reduction of \$42,915,713 to fund the COLA granted to retirees on July 1, 1999.

**SCHEDULES OF EMPLOYER CONTRIBUTIONS**  
**FOR THE SIX YEARS ENDED JUNE 30, 1999**

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1994	\$ 189,566,536	98.7%
1995	196,931,081	103.5%
1996	203,762,677	99.3%
1997	212,221,189	98.4%
1998	221,933,246	104.9%
1999	226,387,848	102.1%

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 Employees' Retirement System.



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**ACTUARIAL METHODS AND ASSUMPTIONS**

**JUNE 30, 1999**

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	June 30, 1999
Actuarial cost method	Projected unit credit
Amortization method	Increasing annuity to 2029
Remaining amortization period	30 years
Asset valuation method	Bonds at amortized 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 (1981-1986) experience study of the System's members.*
Cost-of-living adjustments	None.

\*Includes inflation at 3.00%



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**JUNE 30, 1999**

**MANAGEMENT'S YEAR 2000 READINESS DISCLOSURE STATEMENT**

LASERS is acutely aware of the Year 2000 (Y2K) problem, and our conversion program is progressing rapidly. In the upcoming months LASERS will be completing verification, testing and implementation of its Y2K remedial program. We cannot be absolutely certain that every data product we utilize will be completely free of any millennium problems, however, we are undertaking a comprehensive Y2K compliance program that addresses the problem and we are comfortable that solutions shall be found. We cannot give warranties or make representations regarding third-party software or data providers, however, our compliance program is designed to comply with the Year 2000 Information and Readiness Disclosure Act regarding these suppliers.

The two areas of concern, identified in our assessment stage, are with electronic data processing systems totally maintained within LASERS and with other systems not under the control of LASERS but with whom LASERS communicates on a regular basis. All applications depending on date sensitive information for years 2000 and beyond would be affected if the systems are not corrected.

Remediation Stage: Determination and the making of the required changes to the internal member data system and in third party software is near completion. All hardware remediation changes have been completed.

Validation/Testing Stage: LASERS is in the process of testing its two critical internal systems. The testing is being performed within test environments by consultants and LASERS' Information Technology and end-user staff. LASERS is reviewing third party software for compliance. There are no significant contracts outstanding and \$84,445 budget remains for this project.

While management believes its planning efforts are adequate to address its Year 2000 concerns, there can be no guarantees that the systems of the Organization or the systems of other companies on which LASERS' systems and operations rely, will be converted on a timely basis and that the Year 2000 issue will not have a material impact.



**SUPPORTING SCHEDULES**



LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM

SCHEDULES OF REVENUES BY SOURCE AND EXPENSES BY TYPE  
FOR THE SIX YEARS ENDED JUNE 30, 1999

REVENUES BY SOURCE

Fiscal Year	(1)		Net Investment Income (3)	Other Income	Total	(2) Annual Covered Payroll	Percentage (1)/(2)
	Member Contributions	Employer Contributions					
1994	\$ 118,255,907	\$ 183,608,465	\$ 266,111,985	\$ 44,061,226*	\$ 612,037,583	\$ 1,546,464,828	11.9
1995	123,370,058	191,640,907	481,039,324**	25,949,910*	822,000,199	1,610,375,003	11.9
1996	126,073,816	197,456,874	543,499,808**	39,518,719*	906,549,217	1,645,266,843	12.0
1997	126,793,791	204,985,747	735,749,729**	8,903,383	1,076,432,650	1,653,141,267	12.4
1998	129,724,456	219,680,934	605,216,464**	10,177,305	964,799,159	1,689,840,364	13.0
1999	135,479,230	218,929,941	470,204,749**	9,175,049	833,788,969	1,765,389,858	12.4

EXPENSES BY TYPE

Fiscal Year	EXPENSES BY TYPE			Total	Investment Expenses(3)
	Benefits	Refunds	Administrative		
1994	\$ 275,503,281	\$ 23,955,748	\$ 4,787,926	\$ 936,570	\$ 8,358,479
1995	288,641,870	25,072,191	4,740,662	1,724,916	9,006,271
1996	317,340,115	27,222,153	4,390,986	2,067,946	13,318,452
1997	340,052,578	28,945,409	4,531,467	2,242,443	15,143,892
1998	359,625,826	32,156,373	6,703,504	2,501,942	17,162,772
1999	397,966,405	31,851,567	6,011,305	2,778,585	16,071,796

\*Includes a payment from the State Treasurer as a result of a settlement of Texaco litigation.

\*\* GASB 25 was adopted in 1996 and applied retroactively to July 1, 1994. As a result, investment income includes net appreciation (depreciation) in fair value of investments for 1995 through 1999 which can create significant fluctuations. Prior to 1995, the actuary's report reflects investment counseling expenses as a reduction of investment income which differs from the financial statements which reflect such fees in investment expenses.

LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULES OF ADMINISTRATIVE AND INVESTMENT  
EXPENSES - BUDGET AND ACTUAL

FOR THE YEARS ENDED JUNE 30, 1999 AND 1998

	1999		1998		Variance
	Actual	Budget	Actual	Budget	Favorable (Unfavorable)
Administrative expenses:					
Salaries and related benefits	\$ 3,278,522	\$ 3,308,022	\$ 2,931,012	\$ 3,049,138	\$ 118,126
Travel	116,270	254,702	127,793	250,783	122,990
Operating services	1,400,486	2,028,569	1,224,561	1,982,993	758,432
Supplies	148,371	170,937	127,643	161,460	33,817
Professional services	1,067,656	2,186,787	2,292,495	4,917,485	2,624,990
Capital acquisitions	<u>764,062</u>	<u>766,556</u>	<u>2,240,864</u>	<u>2,639,836</u>	<u>398,972</u>
Total budget and actual expenditures	6,775,367	8,715,573	8,944,368	13,001,695	4,057,327
Capitalization of capital outlay	( <u>764,062</u> )	( <u>766,556</u> )	( <u>2,240,864</u> )	( <u>2,639,836</u> )	( <u>398,972</u> )
Total administrative expenses	<u>\$ 6,011,305</u>	<u>\$ 7,949,017</u>	<u>\$ 6,703,504</u>	<u>\$ 10,361,859</u>	<u>\$ 3,658,355</u>
Investment expenses	<u>\$ 16,071,796</u>	<u>\$ 19,119,876</u>	<u>\$ 17,162,772</u>	<u>\$ 16,486,707</u>	<u>\$ 676,065</u>

**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

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

**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	1999			1998		
	Board Meetings Attended	Other Meeting Days	Amount	Board Meetings Attended	Other Meeting Days	Amount
Cynthia Bridges	12	13	\$ 1,875	11	10	\$ 1,575
Virginia Burton	11	14	1,875	10	9	1,425
Mary Young Cannon	12	12	1,800	11	10	1,575
Leila Smith Detlefs	3	4	525	11	10	1,575
Benny Harris	12	13	1,875	12	10	1,650
Frank Jobert, Jr.	12	13	1,875	12	10	1,650
Barbara McManus	8	11	1,425	11	8	1,425
Louis Quinn	8	10	1,350	11	9	1,500
Kathy Singleton	11	12	1,725	12	11	1,725
Sona Young	3	4	<u>525</u>			<u>          </u>
Total			<u>\$ 14,850</u>			<u>\$ 14,100</u>

Note - 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 years ended June 30, 1998 and 1999, there were 23 and 25 days, respectively, for which board members could be compensated.

The above schedule does not include publicly elected officials who serve on the board but are not compensated for their attendance.



**LOUISIANA STATE EMPLOYEES' RETIREMENT SYSTEM**

**SCHEDULES OF INVESTMENTS AT AMORTIZED COST**

**FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

	<u>6/30/99</u>	<u>6/30/98</u>
Short-term Investments - Domestic	\$ 53,850,549	\$ 22,474,180
Short-term Investments - International	27,601,040	28,501,981
Corporate Bonds	806,251,149	737,387,671
U.S. Treasury Bonds	34,315,124	53,847,674
U.S. Government Agency Bonds	547,344,499	512,637,512
Bonds/Fixed Income - International	516,061,616	436,864,782
U.S. Treasury Notes	151,509,664	185,614,553
Equity Securities - Domestic	2,064,495,028	1,851,113,956
Commingled Equity Trust - Domestic	110,964,675	46,325,159
Equity Securities - International	787,704,141	733,900,293
Real Estate Pools	60,032,375	79,274,095
Alternative Investments	<u>97,812,452</u>	<u>52,190,243</u>
Total	<u>\$ 5,257,942,312</u>	<u>\$ 4,740,132,099</u>





# Louisiana State Employees' Retirement System

P.O. Box 44213 • Baton Rouge, LA • 70804-4213  
8401 United Plaza Blvd. • Baton Rouge, LA • 70809



VOICE: 225-922-0600 • TOLL-FREE: 1-800-256-3000  
FAX: 225-922-0614 • Web Site: [www.lasers.state.la.us](http://www.lasers.state.la.us)

September 29, 1999

Dr. Dan Kyle, Legislative Auditor  
State of Louisiana  
1600 North Third Street  
Post Office Box 94397  
Baton Rouge, LA 70804-9397

Dear Dr. Kyle:

LASERS has received the management letter recommendations from Postlethwaite and Netterville in connection with the audit for year-end June 30, 1999. Accordingly, LASERS offer the following responses:

1. **Retirement Eligibility**

LASERS does have a procedure which indicates that two different analysts independent of each other will perform a preliminary and a final calculation. The procedure requires each analyst to review the annual statements to determine that the service credit is correct. In this particular case, the service credit verification was not done. Staff has been reminded that *verification of service credit is part of the retirement processing procedure and should be looked at in each instance.*

2. **Census Data**

In the last year LASERS has updated its hardware and membership database programs in order to achieve a system that was Year 2000 compliant. The new software allows query capabilities that were not available before. LASERS plans to use these capabilities to analyze timing differences between databases and to facilitate establishing general ledger control totals and balancing techniques during this process. The overall result is that the system will establish a reconciliation process on the census data.

In addition, staff will meet with the system actuary to review the method currently being used to segregate census data into data types and balancing procedures. Staff will establish reconciliation between the system's data format and that of the actuary.

Sincerely,

  
Glenda Chambers  
Executive Director

BOARD  
OF  
TRUSTEES:

Kathy Singleton, Chairman  
Cynthia Bridges  
Virginia Burton

Mary Young Cannon  
Ken Duncan  
Benny G. Harris

Sen. Francis C. Heitmeier  
Frank Jobert, Jr.  
Barbara McManus

Louis S. Quim  
Rep. Victor "Vic" Stelly  
Sona Young

Glenda T. Chambers,  
Executive Director



**Postlethwaite & Netterville**  
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September 12, 1999

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, 1999, we considered the System's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that we feel 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 12, 1999, 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. Retirement Eligibility**

It became apparent during our audit, specifically during our testing of benefit calculations, that the System's controls over retirement eligibility need to be modified and strengthened because one individual was allowed to retire and receive benefits before the System's eligibility requirements were met.

We recommend that verifications be performed of initial retirement calculations to ensure that members are eligible and benefits to be received are calculated correctly.

**2. Census Data**

Participant census data is the integral part of the actuarial accrued liability computation. LASERS does not reconcile to a second source of information to insure the completeness and accuracy of the data.

We recommend that LASERS personnel establish a routine to perform reconciliations on a timely basis, as needed, to insure the integrity of the data.



We would like to express our appreciation for the cooperation and courtesies 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,

*Postlethwaite & Netterville*

