LASERS

2006 Comprehensive Annual Financial Report

fiscal year ended June 30, 2006

Louisiana State Employees' Retirement System

a component unit of the State of Louisiana

LASERS
Louisiana State Employees' Retirement System

CAFR 2006

Louisiana State Employees' Retirement System
A Component Unit of the State of Louisiana

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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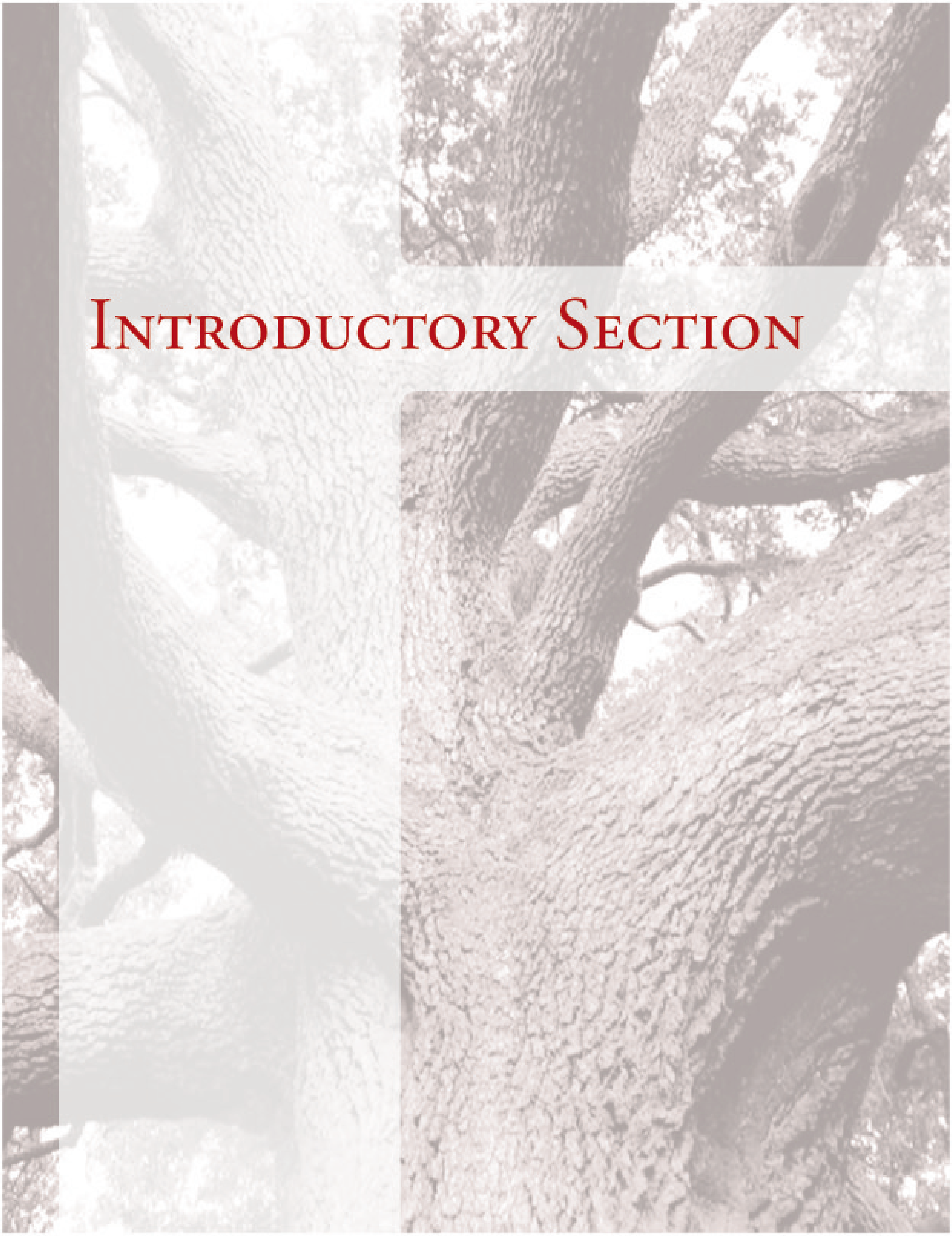
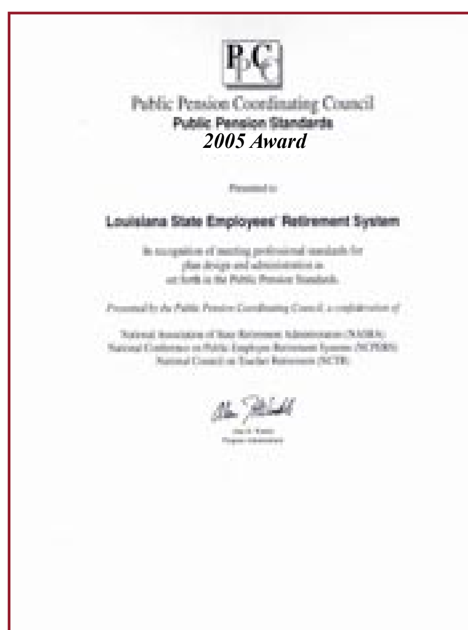


Introductory Section

Certificate of Achievement
for
Excellence
in Financial Reporting
2005

awards for financial reporting

Public Pension Standards
Award
2005



LASERS
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September 29, 2006

Dear Board of Trustees and System Members:

I am pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Louisiana State Employees' Retirement System (LASERS or the System) for the fiscal year ended June 30, 2006. The report is a complete review of the financial, investment, and actuarial conditions of the System and is designed to comply with the generally accepted accounting principles established by the Government Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and reporting standards of the Government Finance Officers Association (GFOA).

Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, rests with the management of LASERS. LASERS established and maintains a system of internal controls, policies, and procedures designed to provide reasonable assurance that assets are properly safeguarded; transactions are properly executed; and reliable financial statements are produced. In addition, internal audit personnel and an independent external audit provide a review of internal controls and operations to ensure the integrity of our reporting.

The CAFR is divided into five sections:

- Introductory Section – contains general information regarding the operations of LASERS;
- Financial Section – contains a management discussion and analysis report, the independent auditor's opinion, the financial statements and notes thereto, and required supplementary information regarding the funds administered by LASERS;
- Investment Section – contains information pertaining to the management of the investments of the pension trust funds, including reports from the System's Chief Investment Officer and investment consultant;
- Actuarial Section – contains information regarding the financial condition and financial position of the retirement plan administered by the System, including the retained actuary's opinion; and
- Statistical Section – contains general statistical information regarding System participants and finances.

Pension System History and Structure

LASERS was established by an Act of the Louisiana Legislature in 1946 with the first members joining the System on July 1, 1947. Substantial revisions were made to the governing legislation of the plan in 1972. LASERS is the administrator of a single employer defined benefit pension plan under Section 401(a) of the Internal Revenue Code. The System is a public trust fund created to provide retirement allowances and other benefits for state officers and employees and their beneficiaries. Funding for LASERS comes from three sources: employer contributions, employee contributions, and earnings from investments. As of June 30, 2006, LASERS had a total membership of 141,817 members and net plan assets totaling over $8 billion.

A twelve member Board of Trustees comprised of six active members of the retirement System, three retired members, and three ex-officio members oversees the System. The Board administers the programs and appoints key management personnel including the Executive Director, Deputy Director, Assistant Director, and the Chief Investment Officer.

In addition to the defined benefit plan, LASERS also offers an Optional Retirement Plan (ORP) to eligible employees. The ORP was created by legislation in 1999 for certain unclassified state employees. The ORP is a defined contribution plan and an alternative retirement plan for eligible employees that provides retirement and death benefits while affording the maximum portability of these benefits to participants. The plan allows participants to place their contributions and direct investment decision making through their provider approved by the LASERS Board of Trustees.

Major Initiatives

LASERS continues to maintain a well-diversified investment program to seek superior returns over its comprehensive long-term strategic plan. The System achieved double-digit investment returns for the fiscal year ended June 30, 2006, marking four consecutive years of double-digit returns. The Plan benefited from strong equity returns, especially in international markets and its private equity investments. During the period, investment assets increased to $7.9 billion, an increase of $750 million over the prior fiscal year. This performance places LASERS in the top tier among its peers nationwide. The Unfunded Accrued Liabilities (UAL) balance, which reflects the difference between projected future liabilities and projected future assets, is amortized and repaid over time. The Louisiana Constitution provides for this balance to be repaid by 2029, with changes in the UAL for 1999 and thereafter amortized over a thirty-year period. Investment returns exceeding the LASERS assumed rate of return of 8.25% will ease the burden on taxpayers to fund the System and will provide funding for future cost-of-living adjustments (COLAs) for retirees.

Another major initiative for LASERS is the focus on improved customer service through enhanced communications and educational services for members, employers, and other interested groups. The Retirement Education Department of LASERS offers pre-retirement seminars to agencies and individual members across the state through on-site visits and video conferencing. These seminars allow LASERS the opportunity to help improve members' understanding of laws that impact LASERS and increase members' opportunity for retirement counseling.

Utilization of technology to improve overall agency performance, communication, and education also continues to be a major initiative of LASERS. LASERS Internet website offers agency and member users access to current System information, educational programs, forms, publications, and legislation. Technological advances in imaging, bar coding, and online fillable forms have enabled LASERS to adopt new online forms to further enhance customer service to its member agencies. LASERS has also made a new e-mail subscription service available to its agencies and members. This service allows agencies and members to receive automatic updates to LASERS publications.

In addition, LASERS continues the development of a re-engineering project entitled the State of Louisiana Retirement Information System, or SOLARIS. SOLARIS is the new pension administration software system that will upgrade LASERS current computer database system and improve and streamline business processes between LASERS agencies and members. Expectations for SOLARIS include:

- Generation and maintenance of comprehensive information for agencies and members to allow for more informed decision making;
- Enhanced member annual statements;
- Reallocation of LASERS staff resources to provide more timely and accurate responses to member applications, requests, and inquiries;
- Improved customer service by automatically generating requests for required documents as changes occur throughout a member's lifetime;
- Faster information updates to enable more accurate and timely benefit estimates for members and agencies; and
- A new interactive customer-focused website to provide more informative communication for LASERS staff, members, and agencies.

SOLARIS began generating all benefit payments in June, 2006, and will begin handling all member functions in 2007.

Other highlights of the fiscal year ended June 30, 2006, include:

- On June 15, 2006, the Louisiana Legislature approved a 2.4% cost-of-living adjustment (COLA) for qualifying LASERS retirees which was paid in July 2006. This was the first COLA that LASERS retirees have received since 2002.
- Growth of LASERS Self-Directed Plan for members coming out of the Deferred Retirement Option Plan (DROP) or electing the Initial Benefit Option (IBO) to 843 participants with total investments of $49.1 million; and
- LASERS deposit of 11.23% interest totaling $30.9 million on eligible DROP and IBO accounts.

Investments

LASERS investments are governed by its Statement of Investment Objectives for the Investment Assets (the Statement). The Statement requires LASERS to invest the assets solely in the interest of the participants and their beneficiaries, and in accordance with Louisiana Revised Statutes. Additionally, the investment objective shall be to preserve and enhance the System's principal over the long term, in both real and nominal terms. LASERS Board of Trustees and investment staff, with the assistance of investment advisors, shall exercise judgment and care which an institutional investor of ordinary prudence, discretion, and intelligence exercises in management of large investments under prevailing circumstances.

In accordance with the Statement, LASERS has set a total return target consistent with prudent investment management. LASERS target rate of return is approximately 9.35%, which is composed of the actuarial target funding rate of 8.25% and an excess return of 1.10%. This excess return is used to reduce LASERS UAL, fund COLAs, and pay administrative and operating expenses. The target asset allocation as of June 30, 2006, was 61% equities, 29% fixed income, and 10% alternative assets. The allocation is expected to achieve the required total rate of return with the least possible amount of risk, within the constraints set by law and the Statement. For the fiscal year ended June 30, 2006, LASERS had a total market value return of 11.9%, and a three year return of 13.3%, ranking LASERS in the top 28% of public pension systems for three year returns.

Financial Condition

From an actuarial perspective, the continued increase in investment values during the fiscal year ended June 30, 2006, combined with increases in the prior two fiscal years, resulted in a 2.8% increase in the overall funded percentage of the fund. In addition, the Employee Experience Account, the reserve account established to fund COLAs, had a balance of $171,905,146.

Normal operating cash flows remained relatively stable throughout the year. The three main sources of operational income are employee and employer contributions and realized investment earnings from dividend and interest income. For the fiscal year ended June 30, 2006, these realized operating revenues totaled $824.8 million and disbursements, including investment manager fees, totaled $703.1 million. Thus, the net positive operating cash flow was $121.7 million for the year ended June 30, 2006.

For the year ended June 30, 2006, LASERS reduced administrative expenses, spending only $15.2 million of a budgeted $19.7 million. A more detailed presentation of the budget versus actual activity for the year is shown in the Schedule of Administrative and Investment Expenses – Budget and Actual in the Financial Section of the CAFR.

Certification of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to LASERS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2005. This was the ninth consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of only one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

LASERS also received the GFOA award for its Popular Annual Financial Report entitled LASERS Summary Annual Report, for the fiscal year ended 2005. This was the seventh consecutive year LASERS has received this award. The Popular Annual Financial Report presents, in a less technical manner, some of the major financial, actuarial, and other interesting information for the reporting year.

In addition, LASERS received the Public Pension Standards 2005 Award. The Public Pension Coordinating Council presents this award to public employee retirement systems in recognition of their achievement of high professional standards in the areas of plan design and administration, benefits, actuarial valuations, financial reporting, investments and membership communications. This is second consecutive year LASERS has received this prestigious award.

Acknowledgements

The preparation of the Comprehensive Annual Financial Report required the combined efforts of various divisions under the leadership of the Executive Director. The report is intended to provide extensive and reliable information to facilitate informed decisions, determine compliance with legal requirements, and determine responsible stewardship of assets contributed by LASERS members and their employers.

I would like to take this opportunity to express my gratitude to the Board of Trustees, the Staff, and to the many people who work so diligently to assist our members.

Respectfully submitted,

Cindy Rougeou
Executive Director

board of trustees

Standing, left to right: Kathy Singleton, Vice Chair; Judge Trudy M. White; Louis Quinn; Lorry S. Trotter
Seated, left to right: Sheryl Ranatza; Cynthia Bridges; Virginia Burton; Connie Carlton, Chair; Barbara McCann
Not Pictured: Hon. John Kennedy, Louisiana State Treasurer; Rep. Pete Schneider, Chair, House Committee on Retirement; Sen. D.A. "Butch" Gautreaux, Chair, Senate Committee on Retirement

administrative organization

Cindy Rougeau
Executive Director

Maris E. LeBlanc
Deputy Director

Jennifer N. Templet
Assistant Director

Ryan Babin
Acting Audit Services Director

Laney Sanders
Policy & Research Director

Robert Beale, CFA
Chief Investment Officer

Sonia Mallett
Executive Counsel

PROVIDERS OF PROFESSIONAL SERVICES
June 30, 2006

Actuary
Hall Actuarial Associates

Custodian Bank
Mellon Global Securities Services

Auditor
Postlethwaite & Netterville

Investment Consultant
New England Pension Consultants

Domestic Equity Managers
Aronson & Partners
Brandywine Asset Management
Chicago Equity Partners
Goldman Sachs
LASERS S & P 100 Index
LASERS S & P 400 Index
LASERS S & P 500 Index
LASERS S & P 600 Index
LSV Asset Management
Rice Hall James and Associates
Smith Group Asset Management
SSGA Russell 2000 Index Fund
Thomson, Horstman & Bryant

International Equity Managers
Acadian Asset Management
Mondrian International Advisers, Ltd.
Rexiter Capital Management
SSGA World Growth Index
Templeton Investment Counsel, LLC

International Emerging Market Manager
Boston Company Asset Management

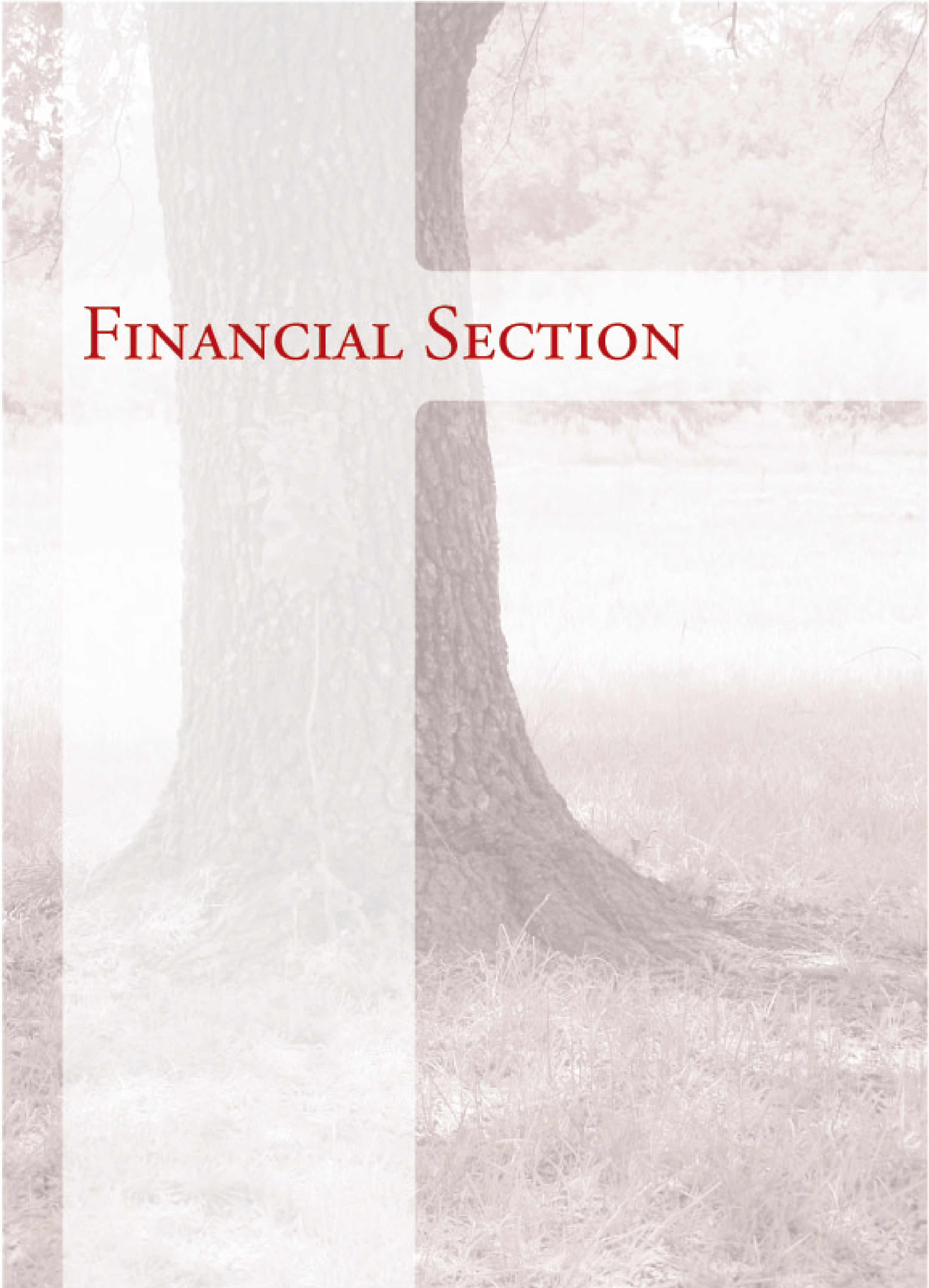
Domestic Fixed Income Managers
Loomis, Sayles & Company
Orleans Capital Management
TCW Asset Management
W. R. Huff Asset Management
Well Capital Management

Global Fixed Income Manager
Mondrian International Advisers, Ltd.

Real Estate Managers
Heitman/JMB Advisory Corporation
L & B Real Estate Counsel

Private Equity Managers
Adams Street Partners
Erasmus
HarbourVest Partners, LLC
Huff Alternative Fund, L. P.
Mesirow
Pantheon Ventures
Quellos Asset Management
Williams Capital Management

Absolute Return Strategies Managers
K-2 Advisors, LLC
Pacific Alternative Asset Management Company



Financial Section

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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 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, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of LASERS management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets as of June 30, 2006 and 2005, and the changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006, on our consideration of LASERS internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The Management Discussion and Analysis and the other required supplemental information as listed in the table of contents, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana

September 5, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 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, 2006, and have issued our report thereon dated September 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Compliance and Other Matters
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 or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use 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. Under La. Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
September 5, 2006

P&N

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of Louisiana State Employees' Retirement System (LASERS) financial performance. This narrative overview and analysis helps to interpret the key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the current year. Readers are encouraged to consider the information presented here in conjunction with additional information provided in the Transmittal Letter of LASERS Comprehensive Annual Financial Report (CAFR).

FINANCIAL HIGHLIGHTS

- The net assets held in trust increased by $782 million, or 11%.
- The actuarial rate of return on the market value of the System's investments was 12.96% for 2006 compared to 11.73% for 2005.
- Net investment income totaled $833 million, an increase of $183 million or 28%.
- The System's funded ratio increased from 61.5% at June 30, 2005 to 64.3% as of June 30, 2006.
- The unfunded actuarial accrued liability decreased from $4.2 billion as of June 30, 2005 to $4.1 billion as of June 30, 2006.
- Total contributions increased by $29 million or 5% to $590 million. This included $13.6 million in contributions allocated for the initial unfunded accrued liability as a result of Act 642 of the 2006 Louisiana Regular Legislative Session.
- Benefit payments increased by $39 million or 7% to $620 million.
- Refund of members' contributions increased by $7 million or 24.6% to $38 million.
- The Experience Account gained $172 million toward future cost-of-living adjustments.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to LASERS financial statements, which are comprised of comparative Statements of Plan Net Assets, comparative Statements of Changes in Plan Net Assets, and Notes to the Financial Statements. This report also contains other required supplementary information and supporting schedules in addition to the basic financial statements.

The Statements of Plan Net Assets report the pension funds assets, liabilities, and resultant net assets held in trust for pension benefits. It discloses the financial position of the System as of June 30, 2006 and 2005, respectively.

The Statements of Changes in Plan Net Assets report the results of the pension funds operations during years disclosing the additions to and deductions from the plan net assets. It supports the change that has occurred to the prior year's net asset value on the statement of plan net assets.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements.

- Note A provides a general description of LASERS, information regarding employer and membership participation.
- Note B provides information regarding LASERS members' pension benefits for the Defined Benefit Plan.
- Note C provides information regarding LASERS members' pension benefits for the Defined Contribution Component
- Note D provides a summary of significant accounting policies and plan asset matters including the basis of accounting, estimates, methods used to value investments, property and equipment, accumulated leave, and reclassifications.
- Note E provides information regarding member and employer contribution requirements.
- Note F describes LASERS deposits and risk disclosures which include custodial credit risk, counterparty credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk.
- Note G describes the System's investments and includes information regarding bank balances, derivatives, real estate, and alternative investments.
- Note H provides information regarding securities lending transactions.
- Note I provides information on the investments for the Self Directed Plan (SDP).
- Note J provides information on the investments for the Optional Retirement Plan (ORP).
- Note K provides information on expenditures for the Capital Outlay Project.
- Note L provides information on recent legislative changes to the plan.

Required Supplementary Information provides additional information and detail concerning LASERS progress in funding its obligations, the history of employers' contributions and schedules of trend data.

The ***Supporting Schedules*** section includes the schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants.

FINANCIAL ANALYSIS

LASERS financial position is measured in several ways. One way is to determine the Plan Net Assets (difference between total assets and total liabilities) available to pay benefits. Over time, increases and decreases in LASERS Plan Net Assets indicate whether its financial health is improving or deteriorating. Other factors, such as financial market conditions, should also be taken into consideration when measuring LASERS overall health.

The table following illustrates a condensed version of LASERS Statement of Plan Net Assets for fiscal years ending, 2006, 2005, and 2004. LASERS Plan Net Assets as of June 30, 2006, and 2005, totaled \$8,008,507,546 and \$7,226,054,722, respectively. All of the Plan Net Assets are available to meet LASERS ongoing obligations to members, retirees, and beneficiaries.

CONDENSED COMPARATIVE STATEMENT OF PLAN NET ASSETS			
	2006	2005	2004
Cash	$65,797,087	$73,610,366	$48,821,649
Receivables	186,915,698	83,142,308	70,603,612
Investments (fair value)	7,867,359,171	7,117,797,716	6,534,373,479
Securities Lending Collateral	724,517,990	3,253,787	565,175,100
Capital Assets	10,183,795	7,147,081	5,317,429
Total Assets	**$8,854,773,741**	**$7,284,951,258**	**$7,224,291,269**
Accounts Payable & Other Liabilities	121,748,205	55,642,749	51,127,840
Securities Lending Collateral	724,517,990	3,253,787	565,175,100
Total Liabilities	**$846,266,195**	**$58,896,536**	**$616,302,940**
Net Assets Held in Trust	**$8,008,507,546**	**$7,226,054,722**	**$6,607,988,329**

In the year ending June 30, 2006, Plan Net Assets increased by $782,452,824, or about 11% from fiscal year ended June 30, 2005. In the year ended June 30, 2005, Plan Net Assets increased by $618,066,393, or approximately 9% from fiscal year ended June 30, 2004. The primary causes of the increases in both fiscal years were the rises in the financial markets and the increases in employer contribution rate as determined by the System's Actuary.

Despite past volatility in the financial markets, LASERS remains in a stable and improving financial position to meet its obligations to LASERS members, retirees, and beneficiaries with a positive net operating cash flow of $121.7 million during fiscal year 2006 and $119.5 million during fiscal year 2005 (excludes both realized and unrealized investment gains and losses). LASERS continuously reviews its asset allocation strategies and makes minor adjustments in order to maximize return while maintaining adequate liquidity. LASERS is a long term investor in the market and believes, based on history, that such a strategy is prudent and profitable.

CONDENSED COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS			
	2006	2005	2004
Additions			
Employer Contributions	$424,850,496	$391,870,045	$335,991,617
Employee Contributions	165,509,666	169,143,849	163,277,178
Total Net Investment Income	833,207,981	650,345,827	996,067,481
Other Income	33,115,285	37,363,680	9,325,388
Total Additions	1,456,683,428	1,248,723,401	1,504,661,664
Deductions			
Benefit Payments	620,367,483	581,665,163	573,152,746
Refund of Contributions	37,821,549	30,357,532	28,760,064
Administrative Expense	16,041,572	18,634,313	13,424,318
Total Deductions	674,230,604	630,657,008	615,337,128
Net Increase	**782,452,824**	**618,066,393**	**889,324,536**
Net Assets Beginning of Year	**7,226,054,722**	**6,607,988,329**	**5,718,663,793**
Net Assets End of Year	**$8,008,507,546**	**$7,226,054,722**	**$6,607,988,329**

Additions (Losses) to Plan Assets

The revenues needed to finance retirement benefits are accumulated primarily through the collection of employer and employee contributions and earnings on investments. Revenue gains for the fiscal year ended June 30, 2006, totaled $1,456,683,428, compared to $1,248,723,401 for the fiscal year ended June 30, 2005. The revenue consisted of employer and employee contributions totaling $590,360,162, net investment income of $833,207,981, and other income of $33,115,285. Net investment income was the primary contributor to the increase in additions to Plan Assets for the fiscal years presented. Investment results again exceeded our portfolio target of 8.25% with an increase in investment earnings of $182,862,154 or 28% in 2006, compared to earnings for fiscal year ending 2005. Employer and employee contribution income also increased from 2005 by $29,346,268. These increases were partially offset by a $4,248,395 or 11% decrease in other income over fiscal year 2005. The decrease in the 2006 other income is due to a reduction of "airtime" purchases of service permitted by Act 340 of the 2004 Louisiana Regular Legislative Session. At June 30, 2006, the net effect of these changes was an overall increase in revenues of 17% or $207,960,027, compared to the prior year decrease in revenues of $255,938,263 or 17%.

Combined contributions also increased as a result of higher annual payroll during fiscal year 2006 and an increase in the employer contribution rate from 17.8% in fiscal year 2005 to 19.1% in fiscal year 2006. Increases in the employer contribution rates are required to meet the constitutional mandate of the System being fully funded by 2029. Employer contributions also increased as a result of Act 642 of the 2006 Regular Louisiana Legislative Session where the State contributed $13.6 million in contributions toward the initial unfunded accrued liability. The slight deduction in employee contributions of $3.6 million over fiscal year 2005 can be attributed to the elimination and furlough of positions affected by hurricanes Katrina and Rita which impacted the Gulf Coast Region during August and September, 2005, respectively.

For the fiscal year ended 2005, total revenue was $1,248,723,401 compared to $1,504,661,664 in 2004. The net positive revenue for the fiscal year ended 2005 consisted of employer and employee contributions totaling $561,013,894, net investment income of $650,345,827, and other income of $37,363,680. The largest increase in revenue was $61,745,099 from member/employer contributions with a $55,878,428 increase in employer contributions being the source of the largest increase. The increase in employer funds was planned as part of the overall reduction of the unfunded liability. In 2005, other income increased by $28,038,292, or 301% over fiscal year ended June 30, 2004, because of "airtime" purchases of service credit permitted by Act 340 of the 2004 Louisiana Regular Legislative Session.

Deductions from Plan Assets

LASERS was created to provide lifetime retirement, survivor, and disability benefits to qualified LASERS members. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering LASERS.

Deductions for the fiscal year ending June 30, 2006, totaled $674,230,604, an increase of approximately 7% over June 30, 2005. For the fiscal year ending June 30, 2005, deductions were $630,657,008, an increase of about 3% over June 30, 2004. The increase in deductions in fiscal year ended 2006 and 2005 was due to increases in benefits paid and refunds of member contributions. Benefits paid in 2006, as in 2005, increased because of the increases in the number of retirees and the average benefit resulting from the higher average salary history of the newer retirees. Also the number of retirees was higher in 2006 because of the affects of hurricanes Katrina and Rita which caused impacted agencies to reduce staff by encouraging retirement. A corresponding increase in refunds of member contributions was also experienced in fiscal 2006 with an increase of refunds of $7,464,017 or 25%, much of which is attributable to the affects of the hurricanes.

Total additions of $1,456,683,428 and $1,248,723,401 less total deductions of $674,230,604 and $630,657,008 resulted in net increases in Plan Net Assets of $782,452,824 in 2006 compared to $618,066,393 increase in 2005.

Administrative expenses decreased by $2,592,741, or 14% for the fiscal year ended June 30, 2006. In 2005 administrative expenses increased $5,209,995, or 39% over fiscal year ended 2004 because of a change in accounting policy for reporting the Optional Retirement Plan. The decrease for the 2006 fiscal year was primarily due decreases in salaries and related benefits of $286,314, operating services of $565,224, acquisitions of $732,998, and $1,845,767 for one time costs incurred in 2005 not incurred in 2006. These decreases are primarily a result of the startup costs associated with the SOLARIS project that occurred in fiscal year ended 2005. These startup costs included backfilling staff positions transferred to the project, hiring of professional consultants, and the purchases of furniture, equipment, and computer hardware and software. Professional services increased $841,529 in fiscal year ended 2006, partially offsetting the deductions in the above areas. The increase in professional services were directly related to one-time costs for the board elections held every two years and increased costs incurred for the new retirement management system (SOLARIS) being written. Detail of Administrative expense activity can be found in the Schedule of Administrative and Investment Expenses – Budget and Actual located under Supporting Schedules.

FUNDED STATUS

An actuarial valuation of assets and liabilities is performed annually. The System's funded ratio increased from 61.5% at June 30, 2005 to 64.3% as of June 30, 2006. The amount by which LASERS actuarial liabilities exceeded the actuarial assets was $4.1 billion at June 30, 2006, compared to $4.2 billion at June 30, 2005, thereby decreasing the unfunded actuarial accrued liability by $55.7 million. The investment yield on the actuarial value of assets has averaged over three years 10.21%. For the year ending June 30, 2006, the net realized actuarial rate of return was 12.96%, which was greater than the System's assumed actuarial rate of return of 8.25%. This resulted in a net investment experience gain of $312 million which is the funding mechanism for future cost-of-living adjustments.

REQUESTS FOR INFORMATION

This Financial Report is designed to provide a general overview of the System's finances. For questions concerning any information in this report or the CAFR, or for additional information contact the Louisiana State Employees' Retirement System, P. O. Box 44213, Baton Rouge, LA 70804-4213.

STATEMENTS OF PLAN NET ASSETS
June 30, 2006 and 2005

	2006	2005
Assets		
Cash and Cash Equivalents (at fair value)	$ 65,797,087	$ 73,610,366
Receivables:		
Employer Contributions	29,645,777	27,816,733
Member Contributions	11,549,151	12,006,606
Interest and Dividends	29,427,425	26,320,386
Investment Proceeds	101,898,215	15,899,504
Open Investment Contracts	-	424,165
Legislative Appropriation	13,600,000	-
Other	795,130	674,914
Total Receivables	186,915,698	83,142,308
Investments (at fair value):		
Short-term Investments - Domestic	267,778,423	254,840,991
Bonds/Fixed Income - Domestic	1,302,728,282	1,245,054,739
Bonds/Fixed Income - International	536,943,431	486,363,472
Equity Securities - Domestic	3,505,030,320	3,170,620,990
Equity Securities - International	1,396,915,595	1,242,685,966
Real Estate Investments	46,265,701	39,812,367
Alternative Investments	811,697,419	678,419,191
Total Investments	7,867,359,171	7,117,797,716
Securities Lending Cash Collateral Held	724,517,990	3,253,787
Property and Equipment (at cost) - Net	10,183,795	7,147,081
Total Assets	**8,854,773,741**	**7,284,951,258**
Liabilities		
Payables:		
Investment Commitments	109,044,141	46,711,353
Open Investment Contracts	47,080	424,165
Trade Payables and Other Accrued Liabilities	12,656,984	8,507,231
Total Payables	121,748,205	55,642,749
Securities Lending Obligations Held	724,517,990	3,253,787
Total Liabilities	**846,266,195**	**58,896,536**
Net Assets Held In Trust For Pension Benefits	**$ 8,008,507,546**	**$ 7,226,054,722**

(The Schedule of Funding Progress for the Plan is presented in Schedule I of the Required Supplementary Information.)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For The Years Ended June 30, 2006 And 2005

	2006	2005
Additions		
Contributions:		
Employer Contributions	$ 411,250,496	$ 391,870,045
Member Contributions	165,509,666	169,143,849
Legislative Appropriation	13,600,000	-
Total Contributions	590,360,162	561,013,894
Investment Income:		
Net Appreciation in		
Fair Value of Investments	660,776,205	498,572,871
Interest and Dividends	188,986,850	167,880,858
Other Investment Income	9,552,575	6,229,958
	859,315,630	672,683,687
Less Investment Fee Expense	28,869,631	24,114,417
Net Investment Income Before Securities Lending	830,445,999	648,569,270
Securities Lending Income		
Income from Securities Lending Activities	7,693,382	12,915,043
Less Borrower Rebates/Fees and Related Expenses	4,931,400	11,138,486
Net Securities Lending Income	2,761,982	1,776,557
Net Investment Income	833,207,981	650,345,827
Other Income	33,115,285	37,363,680
Total Income	1,456,683,428	1,248,723,401
Deductions		
Retirement Benefits	620,367,483	581,665,163
Refunds of Member Contributions	37,821,549	30,357,532
Administrative Expenses	16,041,572	18,634,313
Total Deductions	674,230,604	630,657,008
Net Increase	**782,452,824**	**618,066,393**
Net Assets Held In Trust For Pension Benefits		
Beginning of Period	**7,226,054,722**	**6,607,988,329**
End of Period	**$ 8,008,507,546**	**$ 7,226,054,722**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

1. 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 Comprehensive Annual Financial Report (CAFR) as a pension trust fund. The System was established by Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S.11:401).

In accordance with Louisiana Revised Statutes, the System is subject to certain elements of oversight:

- The Commission on Public Retirement reviews administration, benefits, investments, and funding of the public retirement systems.
- The operating budget of the System is subject to budgetary review and approval by the Legislature.
- The Legislative Auditor is responsible for the procurement of audits for the public retirement systems and is authorized to contract with a licensed Certified Public Accountant (CPA) for each audit.

In May 2002, the Governmental Accounting Standards Board issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amended 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.

2. Plan Membership

The System is one of several public retirement systems in Louisiana. Each system has specific membership requirements established by legislation with LASERS established for state officers, 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 June30, 2006, and 2005, follows:

	2006		2005	
	Number of Employers	Number of Members	Number of Employers	Number of Members
Type of Employer				
State Agencies	220	57,416	220	63,885
Other Public Employers	140	395	132	283
Total Employers	**360**	**57,811**	**352**	**64,168**
Type of Active Members				
Regular State Employees		52,466		58,331
Corrections Employees		4,760		5,245
Judges		315		325
Wildlife Agents		221		218
Legislators		49		49
Total Active Members		**57,811**		**64,168**

At June 30, 2006, and 2005, membership consisted of:

	2006	2005
Active Members	57,811	64,168
Regular Retirees	28,944	27,646
Disability Retirees	1,202	1,199
Survivors	5,409	5,360
Vested & Reciprocals	2,492	1,486
Due Refunds	43,382	34,379
DROP Participants	2,577	2,810
Total Membership	**141,817**	**137,048**

B. DEFINED BENEFIT PLAN

1. Eligibility Requirements

All state employees except those specifically excluded by statute become members of the System's Defined Benefit Plan (DBP) 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.

2. 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 30 years of creditable service to age 60 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 36 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or a certain specified dollar amount 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 their retirement benefits under any one of six different options providing for a reduced retirement benefit payable throughout their life with certain benefits being paid to their designated beneficiary after their death.

Act 75 of the 2005 Louisiana Regular Legislative Session changes retirement eligibility and final average compensation for members who are eligible to begin participation in the DBP beginning July 1, 2006. Retirement eligibility for these members is limited to age 60, or thereafter, upon attainment of ten years of creditable service. Final average compensation will be based on the member’s average annual earned compensation for the highest 60 consecutive months of employment.

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 their accumulated contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is ten years of service.

3. Deferred Benefits

The State Legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. For members who entered DROP prior to January 1, 2004, interest at a rate of one-half percent less than the System's realized return on its portfolio (not to be less than zero) will be credited to the retiree 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. Members who enter DROP on or after January 1, 2004, are required to participate in LASERS Self-Directed Plan (SDP) which is administered by a third-party provider. The SDP allows DROP participants to choose from a menu of investment options for the allocation of their DROP balances. Participants may diversify their investments by choosing fixed investment options and mutual funds from asset classes with different holdings, management styles, and risk factors.

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. For members who select the IBO option prior to January 1, 2004, such amount may be withdrawn or remain in the IBO account earning interest at a rate of one-half percent less than the System’s realized return on its portfolio (not to be less than zero). Those members who select the IBO on or after January 1, 2004, are required to enter the SDP as described above.

4. Disability Benefits

All members hired before June 30, 2006, with ten or more years of credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age.

Act 75 revised the disability retirement benefit for members of the DBP hired subsequent to June 30, 2006. The disability benefit for members who have not attained age 60 will be equivalent to 1.8% of average compensation for each year of creditable service.

Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the Board of Trustees.

5. 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 18, or age 23 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.

6. Supplemental Benefit Adjustments

Previous statutes allowed the Board of Trustees to make annual supplemental cost-of-living adjustments (COLAs) each year when the System's Actuary and the State Legislative Actuary certified that LASERS was systematically approaching actuarial soundness, if such COLAs had not already been enacted by the Legislature. The COLAs could not be greater than 3% in any year. These adjustments were 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 3% amount. In addition, several other COLAs 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. COLAs were granted in 1980, 1981, 1984, 1986 and 1991.

In 1992, Act 1031 created an Employee Experience Account to accumulate one-half of any returns above the target return rate of 8.25%. Such accumulations are offset when returns do not meet the target rate. In 1999, additional legislation was added to provide a permanent mechanism and guidelines for COLAs.

Act 900 of the 2001 Regular Session provided legislation for a Minimum Retirement Benefit funded by the Employee Experience Account. The Minimum Retirement Benefit was designed to increase benefits for those members who had been retired the longest and were receiving a relatively small benefit. The Employee Experience Account provided COLAs in 1996 and 1998 through 2002.

In 2001, Act 1016 provided for an additional 1% COLA when the actuarial return exceeds 8.25%. Beginning with the 2002 fiscal year, Act 1016 legislation limited the COLA to the first $70,000 of a member's benefit and provided for the $70,000 to be increased each year in an amount equal to any increase in the consumer price index (U.S. city average for all urban consumers (CPI-U)) for the preceding year. In addition, the legislation provided that any COLA increase shall begin on July 1st following legislative approval.

Act 588 of the 2004 Regular Session made significant changes to prospective funding for COLAs. The outstanding balance of changes in liabilities from 1993 – 1998 were re-amortized as a level dollar amount through 2029. The amortization period for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence, in accordance with GASB. A minimum employer contribution rate of 15.5% and an Employer Credit Account were established for excess contributions. Act 588 also reset the Employee Experience Account to zero and thereafter limited the account balance to no more than the reserve for two COLAs. The Employer Credit Account's purpose is to accumulate the excess of the minimum rate of 15.5% over the actuarially required employer contribution for the fiscal year and will accumulate interest at the actuarial rate of return earned annually by the System.

The process for granting COLAs was also changed by Act 588. Under Act 588, the Board of Trustees may not grant a COLA increase unless it has been approved by the Legislature by a concurrent resolution adopted by the favorable vote of a majority of the elected members of each house. LASERS Board of Trustees may recommend to the Legislature that a COLA increase be granted if the Employee Experience Account is sufficient to fund such a benefit fully on an actuarial basis, as determined by the System's Actuary.

C. DEFINED CONTRIBUTION COMPONENT

Optional Retirement Plan

An Optional Retirement Plan (ORP) was established as a defined contribution component of LASERS for certain unclassified employees who otherwise would be eligible to become members of LASERS. The ORP provides retirement and death benefits to eligible participants while affording the maximum portability of these benefits to the participants. Investment options for participants are established by the ORP provider and selected by the participant. ORP balances are held by the ORP provider in separate accounts in each participant's name. Vesting in the System is immediate in all funds submitted to the ORP provider by LASERS on behalf of the participant. The ORP does not contain special provisions for disability benefits. Death benefits are paid out by the provider in accordance with Internal Revenue Code provisions. All other benefit obligations are the sole obligation of the ORP.

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis Of Accounting

LASERS financial statements are prepared in conformity with accounting principles generally accepted in the United States of America 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 General Fund appropriations are recognized in the period when they are appropriated. Employer and member contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Administrative expenses are funded exclusively from investment earnings and are subject to budgetary control of the Board of Trustees and the Joint Legislative Committee on the Budget. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

2. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 additions to and deductions from plan net assets during the reporting period. Actual results could differ from those estimates. The retirement system utilizes various investment instruments, which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Statements of Plan Net Assets.

3. 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 the current exchange rate. 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.

4. Property And Equipment

Property and equipment are reported 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. The capitalization thresholds of property and equipment for the year ended June 2006 were:

- Computer Software Developed or Modified Internally - $1,000,000
- Other Computer Software Purchases - $5,000
- Movable Property and Equipment - $1,000

LASERS is a 50% co-owner of the Louisiana Retirement Systems building and related land with Teachers' Retirement System of Louisiana.

CHANGES IN PROPERTY AND EQUIPMENT	June 30, 2005	Additions	Deletions	June 30, 2006
Asset Class (at Cost)				
Land	$ 858,390	$ -	$ -	$ 858,390
Building	5,149,223	69,818	-	5,219,041
Storage	24,104	-	-	24,104
Furniture and Equipment	6,181,499	328,244	(1,109,408)	5,400,335
Capital Outlay Project	1,416,516	3,420,423	-	4,836,939
Total Property and Equipment	**13,629,732**	**3,818,485**	**(1,109,408)**	**16,338,809**
Accumulated Depreciation				
Building	(2,153,592)	(131,613)	-	(2,285,205)
Storage	(24,104)	-	-	(24,104)
Furniture and Equipment	(4,304,954)	(618,356)	1,077,605	(3,845,705)
Total Accumulated Depreciation	**(6,482,650)**	**(749,969)**	**1,077,605**	**(6,155,014)**
Total Property and Equipment - Net	**$ 7,147,082**	**$ 3,068,516**	**$ (31,803)**	**$ 10,183,795**

5. Accumulated Leave

The employees of the System accumulate unlimited amounts of annual and sick leave at varying rates as established by state regulations. Upon resignation or retirement, unused annual leave of up to 300 hours is paid to employees at the employees' current rate of pay. Upon retirement, unused annual leave in excess of 300 hours and sick leave are credited at the current pay rate as earned service in computing retirement benefits. The liability for accrued annual leave of up to 300 hours is included in other liabilities in the Statements of Plan Net Assets.

6. Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

E. CONTRIBUTIONS

1. Member Contributions

Member contribution rates for the System are established by La. R.S.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, 2006, and 2005, for the various types of members are as follows:

Type of Member	Percent of Earned Compensation 2006	2005
Regular Members*	7.5%	7.5%
Correctional Officers, Security Personnel, and Probation Officers	9.0%	9.0%
Wildlife Agents	9.5%	9.5%
Legislature, Governor, Lieutenant Governor, Judges, and Court Officers	11.5%	11.5%
Clerk of the House of Representative and Secretary of the Senate	9.5%	9.5%
State Treasurer	7.5%	7.5%
Bridge Police Employees for the Crescent City Connection	8.5%	8.5%

*Act 75 of the 2005 Regular Session increased the member contribution rate for members hired effective July 1, 2006, from 7.5% to 8.0%

A member's claim 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 their behalf, the accumulated contributions may be refunded to the member or their designated beneficiary. Similarly, accumulated contributions in excess of any benefits paid to a member or their survivors are refunded to the member's beneficiary or their estate upon cessation of any survivor's benefits.

2. **Employer Contributions**

The employer contribution rate is established annually under La. R.S.11:101-11:104 by the Public Retirement Systems' Actuarial Committee (PRSAC), considering the recommendation of the System's Actuary. Rates for the years ended June 30, 2006, and 2005 are as follows:

	2006	2005
Percent of Member's Earned Compensation	19.1%	17.8%

F. DEPOSITS AND INVESTMENT RISK DISCLOSURES

1. **Deposit And Investment Risk Disclosures**

The tables presented on the following pages include disclosures of custodial, interest rate, credit, and foreign currency risks in accordance with GASB 40 and are designed to inform financial statement users about investment risks that could affect the System's ability to meet its obligations. These tables classify investments by risk type, while the financial statements present investments by asset class; thus, the totals shown on the tables may not be comparable to the amounts shown for the individual asset classes on the financial statements.

2. **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of bank failure, the System's deposits may not be returned to them. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investments, or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either: a) the counterparty or b) the counterparty's trust department or agent but not in the government's name. LASERS had no custodial credit risk as of June 30, 2006.

3. Concentration Of Credit Risk

Concentration of credit risk is the "risk of loss attributed to the magnitude of investments in a single issuer." The risk occurs "when investments are concentrated in any one issuer that represents 5% or more of plan net assets." Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The System has no investments of any single organization (other than those issued or guaranteed by the U.S. Government) that represents 5% or more of the System's net plan assets, nor does the System hold more than 5% of any corporation's stock.

4. Credit Risk

Credit risk is the risk that a borrower will be unable to meet its obligation. The overall average quality of each fixed income portfolio shall be rated AA by Standard and Poors or higher. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high-yield fixed income portfolios. The average duration shall not differ from the passive benchmark's duration by more than two years.

The System's exposure to credit risk, both domestic and foreign, as of June 30, 2006, and 2005, is as follows:

Rating	Fair Value 2006	Fair Value 2005
AAA to AA3	$ 908,688,995	$ 843,093,244
AA2 to AA+	136,105,497	12,741,657
A3 to A+	117,889,443	182,332,567
BAA1 to BBB+	99,400,094	123,090,605
BA3 to BB+	154,292,349	187,761,950
B3 to B+	289,201,193	264,792,051
CAA1 to CCC+	40,596,197	54,236,648
Ca to C	1,159,138	14,757,975
D	130,075	143,951
N/A	51,074,516	14,309,367
Total	**$ 1,798,537,497**	**$ 1,697,260,015**

5. Interest Rate Risk

Interest rate risk deals with debt investments with fair values that are highly sensitive to interest rate changes. These investments may contain terms that increase the sensitivity of their fair values. For example, terms embedded in variable rate investments may include reset dates, benchmark indices, and coupon multipliers.

Securities held by the System with interest rate sensitivity (floaters/inverse floaters) equaled 0.0078% of the portfolio's fair value at June 30, 2006.

At fiscal year end June 30, 2006, LASERS had $61,183,783 in securities with interest rate risk exposure due to the following floaters and inverse floaters:

		Coupon Multipliers	Embedded Options		
Interest Rate Reset Dates	Benchmark Indices	Imputed Multiplier (range)	Weighted Average Life (in years)	Fair Value 2006	Fair Value 2005
Annual	Federal Reserve US Treasury Note 1.5% (Non-callable)	(1.119) - 1.54	1.164	$ 8,322,274	$ 10,341,162
Annual	BBA Libor USD 12 Month (Non-callable)	(1.975) - (0.258)	2.981	$ 39,172,806	$ 52,028,670
Monthly	BBA Libor USD 1 Month (Non-callable)	-3.62	14.63	$ 1,338,347	$ 2,692,438
Monthly	BBA Libor USD 1 Month (Callable)	(4.291) - 6.378	10.713	$ 12,350,356	$ 17,305,630
Total				**$ 61,183,783**	**$ 82,367,900**

6. Foreign Currency Risk

Foreign currency risk is the potential risk for loss due to changes in exchange rates. Short-term reserves may be held in U.S. dollar-denominated, local currency securities, or investment vehicles available through the System's custodian. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions.

Currency contracts may be utilized to either hedge the portfolios currency risk exposure or in the settlement of securities transactions.

The fair value of securities held in a foreign currency at June 30, 2006, and 2005, was as follows:

Currency	Total Fair Value 2006	Foreign Bonds 2006	Foreign Stock 2006	Percent 2006	Total Fair Value 2005
Australian Dollar	$ 74,473,753	$ 29,413,167	$ 45,060,586	6.1%	$ 32,867,641
Brazilian Real	40,661	-	40,661	0.0%	-
Canadian Dollar	32,403,167	-	32,403,167	2.7%	24,668,559
Danish Krone	2,495,800	-	2,495,800	0.2%	1,993,183
Euro	498,940,836	227,276,063	271,664,773	40.9%	371,472,722
Hong Kong Dollar	15,662,442	-	15,662,442	1.3%	11,499,100
Japanese Yen	334,858,338	181,271,292	153,587,046	27.4%	243,395,185
Malaysian Ringlet	443,686	-	443,686	0.0%	-
Mexican Peso	10,048,416	10,048,416	-	0.8%	4,385,378
New Zealand Dollar	484,261	-	484,261	0.0%	740,812
Norwegian Krone	7,607,449	-	7,607,449	0.6%	7,705,979
Polish Zloty	23,696,175	23,347,504	348,671	1.9%	21,828,716
Pound Sterling	168,052,059	-	168,052,059	13.7%	198,837,324
Singapore Dollar	7,420,070	-	7,420,070	0.6%	12,415,028
South Korean Won	631,395	-	631,395	0.1%	5,410,818
Swedish Krona	14,337,770	3,539,814	10,797,956	1.2%	59,443,833
Swiss Franc	30,755,300	-	30,755,300	2.5%	27,692,135
Total	**$ 1,222,351,578**	**$ 474,896,256**	**$ 747,455,322**	**100.0%**	**$ 1,024,356,413**

LASERS Investment guidelines, some of which are noted in *Note G. Cash and Investments*, are designed to mitigate the risks discussed above.

G. CASH AND INVESTMENTS

1. Cash and Cash Equivalents

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

2. Short-Term Investments

Short–term funds may be invested in direct U.S. Government obligations such as U.S. Treasury Bills or repurchase agreements, which are fully collateralized by U.S. Treasury issues. Excess cash may also be invested in the LASERS Active Reserve Account and LASERS Late Money Deposit Account or negotiable certificates of deposit, or other short-term investment vehicles designated by the Board.

At June 30, 2006, LASERS had the following balances in short-term funds held at Mellon Bank:

Issuer	Fair Value 2006	Fair Value 2005	Average Rating On Underlying Security
Mellon (LASERS Active Reserve)	$ 267,233,830	$ -	AA
Mellon (LASERS Late Money Deposits)	544,593	-	AAA
US Treasury Bills	1,804,900	893,630	AAA
SSB STIF (State Street Bank Short Term Investment Fund)	-	253,947,361	AA
Total	**$ 269,583,323**	**$ 254,840,991**	

3. Investments

Investments of the pension trust funds are reported at fair value. Fair value of the equity real estate investments are based on appraisals. Fair values of the limited partnership investments are based on valuations reported by the general partner. The remaining assets are primarily valued by the investment custodian bank which uses quoted market values at the last day of the period.

La. R.S.11:261-269 provide for the governing of fiduciary responsibilities and investments by LASERS. La. R.S.11:263 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.

La. R.S.11:267C provides that the System may invest up to 65% of its total assets in common stock provided that “the System invests an amount equal to at least 10% of the System’s total equity portfolio in one or more index funds” in accordance to La. R.S.11:267B(1)(a). In addition, LASERS Board of Trustees has adopted certain investment policies, objectives, rules, and guidelines that are intended to protect and preserve LASERS assets while targeting a 9.35% nominal rate of return and also, a real return target of 4% over the inflation rate as determined by the consumer price indexes (CPI).

During fiscal year 2006, the System's investments appreciated in value by $660,776,205 compared to the appreciation of $498,572,871 investments in 2005.

	2006	2005
Unrealized gains/(losses) on investments during the year:	$ 266,772,312	$ 96,066,547
Realized gains/(losses) on investments including currency sold during the year:	394,003,893	402,506,324
Total	**$ 660,776,205**	**$ 498,572,871**

The following table presents the fair value of investments permissible under such objectives, rules and guidelines as of June 30, 2006, and 2005:

Investment Type	Fair Value 2006	Fair Value 2005
American Depository Receipts	$ 9,567,959	$ 86,678,016
Collateralized Mortgage Obligations	80,150,963	65,135,754
Commingled Stock Fixed Income	15,836,309	14,120,380
Commingled Stock Funds	58,785,885	48,870,369
Corporate Bonds	643,800,088	641,801,123
Domestic Common Stock	3,446,244,435	3,121,750,620
Federal Agency Sponsored	437,761,980	24,431,612
Federal Sponsored	16,711,384	391,044,351
Fixed Income Commingled	41,134,217	34,158,197
Foreign Corporate Bonds	23,592,791	23,485,832
Foreign Corporate Yankee Bonds	48,865,263	61,765,160
Foreign Government Bonds	440,893,405	381,534,703
Foreign Government Yankee Bonds	7,755,663	5,457,398
Foreign Preferred Stock	1,118,420	4,306,766
Foreign Stock Rights	991,789	482,914
International Commingled Stock Fund	564,171,441	539,248,385
International Common Stock	821,065,986	611,969,884
Other Bonds	40,337,816	40,152,338
Alternative Investments	811,697,419	678,419,191
Real Estate Investment Pools	46,265,701	39,812,367
Short Term Investment Funds	267,778,423	254,840,991
US Treasury Bonds	8,873,452	11,842,824
US Treasury Bills & Notes	33,958,382	36,488,541
Total	**$ 7,867,359,171**	**$ 7,117,797,716**

4. Domestic Equity

Domestic equity purchases are limited to publicly traded common stocks. Exceptions shall be approved by the Board in advance. No single holding shall account for more than 6% of the allowable equity portion of the portfolio at market value, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger.

LASERS domestic equity portfolios are expected to be fully invested. No single holding in LASERS portfolio shall account for more than 5% of the outstanding common stock of any one corporation. No more than 10% of a manager's domestic equity portfolio may consist of cash or cash equivalents. Additionally, no single holding across all actively managed portfolios of an investment management firm shall account for more than 15% of the outstanding common stock of any one corporation.

The purchase of stocks or convertibles in foreign companies which are publicly traded securities may be held by each domestic stock manager in proportions which each manager shall deem appropriate, up to 10% of the portfolio at market value. Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes so long as they meet the equity guidelines listed above.

5. International Equity

Short-term reserves may be held in U.S. dollar-denominated, local currency securities or investment vehicles available through the System's custodian. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions.

LASERS international equity portfolios are expected to be fully invested. No more than 10% of a manager's international equity portfolio may consist of cash or cash equivalents. Equity securities should be issued by non-U.S. corporations, although the manager has latitude to hold U.S. securities provided that such investment is consistent with attainment of the portfolio's investment objectives and does not exceed 10% of the portfolio's market value. American Depository Receipts (ADRs) do not count towards this 10% limitation.

The number of issues held and their geographic or industry distribution shall be left to the investment manager provided that equity holdings in any one company (including common stock and convertible securities) do not exceed 6% of the market value of the manager's portion of LASERS portfolio, or 150% of a stock's weighting in the style benchmark against which the manager is measured, whichever is larger. Additionally, bonds of the companies in question would be included in LASERS exposure calculation if held in the manager's portfolio.

Managers with established international equity mandates may invest up to 10% of their portfolio(s) in the emerging markets. Managers with an emerging markets equity mandate are expected to invest in the emerging (non-established) markets, subject to the guidelines listed above.

6. Domestic Fixed Income

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 fixed income 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. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies.

The overall average quality of each fixed income portfolio shall be rated AA by Standard and Poors or higher. Split-rated securities will be measured using Standard and Poors ratings. Non-rated issues or issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. These quality restrictions will not apply to a manager that is hired by LASERS to manage dedicated high-yield fixed income portfolios.

The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged, as deemed appropriate by the investment managers. The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark's duration by more than two years.

Any mortgage-backed securities (MBS) shall be subject to the constraints listed below:

Agency fixed and floating rate pass-throughs, U.S. Treasury Securities and cash equivalents can be held without limitation. Fixed rate PAC I, PAC II and Sequential Collateralized Mortgage Obligations can be held without limitation. Inverse floating rate, interest only (I/O), principal only (P/O), and accrual CMOs in aggregate will be limited to 15% of the mortgage securities portfolio, with no more than 5% of the portfolio invested in accrual CMOs. In the event that other types of mortgage-related securities that have risk characteristics similar to those in this category are developed, the manager will inform the investment committee of those securities and they will be included in this 15% limitation.

All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate 20% of the portfolio. The manager must receive at least two competitive offers on the same or similar securities prior to purchasing each mortgage-backed security for the portfolio.

LASERS recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with these guidelines.

High yield fixed income managers may invest up to 20% of their portfolios in non-U.S. fixed income securities.

7. Global Fixed Income

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 non-U.S. government entity. No single non-government debt security shall constitute more than 6% of the global bond portfolio, at market value. Securities issued by AAA Rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents.

Short-term reserves may be held in U.S. dollar-denominated or local currency securities or investment vehicles available through LASERS custodian.

Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than leverage portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolio's currency risk exposure or in the settlement of securities transactions. Managers may purchase or sell currency on a spot basis to accommodate securities settlements. Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager.

The overall average quality of each global fixed income portfolio shall be AA or higher. Non-rated issues may be purchased, provided that in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of AA or higher. Issues below investment grade (below BBB) may be purchased up to a maximum of 15% of the portfolio. The average duration (interest rate sensitivity) of a global fixed income portfolio shall not differ from the passive benchmark by more than two years.

As of June 30, 2006, the System had the following domestic and foreign debt investments and maturities:

		Investment Maturities (years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**5 - 10**	**More than 10**
US Treasuries	$ 42,831,834	$ 2,797,221	$ 9,498,312	$ 15,631,464	$ 14,904,837
Federal Sponsored	16,711,384	-	-	1,115,398	15,595,986
Federal Agency Sponsored	437,761,980	-	437,883	26,456,724	410,867,373
Collateralized Mortgage Obligations	80,150,963	-	-	-	80,150,963
Corporate Bonds	643,800,088	20,009,348	135,903,897	421,165,365	66,721,478
Foreign Corporate Bonds	23,592,791	-	23,592,791	-	-
Foreign Government Bonds	440,893,405	21,675,306	147,793,557	199,241,445	72,183,097
Corporate Yankee Bonds	48,865,263	3,848,035	8,943,256	30,694,916	5,379,056
Foreign Government Yankee Bonds	7,755,663	-	4,361,413	-	3,394,250
Other Bonds	40,337,816	1,497,495	22,184,063	9,708,924	6,947,334
Total	**$ 1,782,701,187**	**$ 49,827,405**	**$ 352,715,172**	**$ 704,014,236**	**$ 676,144,374**

8. Derivatives

During the fiscal years 2006 and 2005, the System invested in collateralized mortgage obligations (forms of mortgage-backed securities) and forward foreign exchange contracts. The System reviews market value of all securities on a monthly basis. Derivative securities are held in part to maximize yields and in part to hedge against a rise in interest rates.

a. **Collateralized mortgage obligations** (CMOs) are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with that CMOs established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates than others that can be significantly sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reductions in interest payments cause a decline in cash flows and, thus, a decline in market value of the CMO security. Rising interest rates may cause an increase in interest payments, thus an increase in the value of the security.

b. A **currency forward** is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry counterparty risk. Forwards are usually transacted over-the counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation. They are entered into with the foreign exchange department of a bank located in a major money market. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the System records the unrealized translation gain or loss.

The following table represents the fair value of all open currency forwards at June 30, 2006:

Currency					
Sold	**Purchased**	**US Dollar Value at Trade Date**	**Payable Base Market Value**	**Receivable Base Market Value**	**Unrealized Gain (Loss)**
Japanese Yen	U.S. Dollar	$ 923,063	$ (927,112)	$ 923,063	$ (4,049)
Mexican New Peso	U.S. Dollar	17,497	(17,465)	17,497	32
Swedish Krona	U.S. Dollar	74,362,338	(76,127,082)	74,362,338	(1,764,744)
U.S. Dollar	Australian Dollar	29,089,894	(29,089,894)	29,622,578	532,684
U.S. Dollar	Euro Currency	8,697,528	(8,697,528)	8,868,831	171,303
U.S. Dollar	Japanese Yen	2,644,501	(2,644,501)	2,694,238	49,737
U.S. Dollar	Mexican New Peso	5,739,822	(5,739,822)	5,800,512	60,690
U.S. Dollar	Polish Zloty	23,714,803	(23,714,803)	24,235,260	520,457
British Pound Sterling	U.S. Dollar	8,987,190	(9,310,771)	8,987,189	(323,582)
Total		**$ 154,176,636**	**$ (156,268,978)**	**$ 155,511,506**	**$ (757,472)**

9. Real Estate

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. Stock and stock funds comprised of real estate investments trusts (REITS) are also allowed.

10. Alternative Investments

LASERS is discontinuing real estate as part of its alternative asset portfolio with its current real estate investments valued at $246,244 at June 30, 2006. Investments in alternative investments now include limited partnership agreements, private capital markets, venture capital, mezzanine debt, and hedge funds which have a target allocation of 10% of total fund assets. The total commitments and total amount invested for alternative investments on a cost basis (private placements) as of June 30, 2006, and 2005, respectively:

Alternative Investments	2006	2005
Total Commitments	$ 899,340,855	$ 763,101,621
Total Invested (cost basis)	$ 742,645,243	$ 673,391,019

LASERS shall endeavor to systematically commit additional funds to this asset class over time as it becomes under-represented relative to LASERS target asset allocation. LASERS shall attempt to commit up to 200% of its target weighting to private equity investments to help ensure that the funded portion of the investments approximate the target allocation.

Alternative asset amounts that are in excess of the target amount as a result of partial or full liquidation of positions or the receipt of income from investments, shall be reallocated to LASERS under-allocated asset classes. Liquidations should be re-invested in the alternative asset program if that asset class is under-represented relative to LASERS target asset allocation.

LASERS shall only invest in alternative assets when there is complete transparency and policy compliance reporting. The Board of LASERS recognizes that alternative assets are potentially more risky than other investments of the Fund. As such, extra care shall be taken in evaluating and fully understanding all aspects on an alternative investment opportunity.

LASERS initial investment in a partnership/fund shall not exceed 25% of the committed capital of that partnership/fund. All investments must have a mechanism for exit.

No more than 25% of the alternative asset investment allocation may be invested with a single manager, general partner, or single fund, with the exception of a fund-of-funds. Preference will be given to those funds where the general partner is contributing at least 1% of total fund. References on a general partner must be checked prior to investing in a fund. The alternative asset program will be diversified to limit the exposure of any one investment to 2% of the assets of LASERS total assets.

H. SECURITIES LENDING PROGRAM

The System has, pursuant to a Securities Lending Authorization Agreement, authorized Mellon Global Securities Services (Mellon) to act as agent in lending the System's securities to brokerdealers and banks pursuant to a form of loan agreement. All investment assets are available for lending.

During the fiscal year, Mellon lent, on behalf of the System, certain securities held by them and received cash (both U.S. and foreign currency), and securities issued or guaranteed by the U.S. government, sovereign debt and irrevocable bank letters of credit as collateral. Mellon 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) 102% of the market value of the loaned securities, in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the U.S. or sovereign debt issued by foreign governments; and (ii) 105% of the market value of the loaned securities, in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the U.S..

The System did not impose any restrictions during the fiscal year on the amount of the loans that Mellon made on its behalf and Mellon 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 year. Moreover, there were no losses during the fiscal years resulting from a default of the borrowers or Mellon.

Also, during the fiscal year, 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 managed by the custodian. As of June 30, 2006, such investment pool had an average duration of 54 days and an average weighted maturity of 515 days. On June 30, 2006, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System.

The market values of securities on loan and the collateral held for the System as of June 30, 2006, were $697,668,701 and $724,517,990 and for June 30, 2005, $3,208,983 and $3,281,507.

Fair value of securities types lent as of June 30, 2006, and 2005:

Security Type	Fair Value of Securities on Loan 2006	Fair Value of Collateral Held 2006	Fair Value of Securities on Loan 2005	Fair Value of Collateral Held 2005
US Government and Agency*	$ 61,086,931	$ 62,351,401	$ 2,701,237	$ -
US Corporate	76,265,176	78,134,660	-	2,756,705
US Equity*	398,559,017	413,731,017	-	-
International Equity*	115,545,513	121,604,304	507,746	524,802
International Fixed	46,212,064	48,696,608	-	-
Total	**$ 697,668,701**	**$ 724,517,990**	**$ 3,208,983**	**$ 3,281,507**

* This security type includes securities collateral.

I. SELF-DIRECTED PLAN (SDP)

Investments in the Self-Directed Plan consist of different mutual funds, such as, domestic equity, foreign equity, and domestic fixed income. SDP includes $8,800,858 invested in equity type funds and $40,251,586 in domestic fixed income:

Issuer	Fair Value 2006	Fair Value 2005	Average Rating on Underlying Issues
Hancock-Horizon Strategic Inc., Bond Trust	$ 47,206	$ 41,898	A
Stable Value Fund	39,390,699	32,351,584	AAA
Loomis Sayles Bond Fund - Retail	674,617	650,444	A+
Pimco Total Return Fund Admin (60% allocated to bonds)	101,595	270,941	Up to 10% can be invested in high yield.
Strong Government Securities Fund (replaced by Wells Fargo)	20,699	32,827	AAA
BGI US Debt Index Fund - Collective F	16,770	-	
Total	**$ 40,251,586**	**$ 33,347,694**	

J. OPTIONAL RETIREMENT PLAN (ORP)

Investments in the Optional Retirement Plan are mutual funds that consist of domestic equity, foreign equity and domestic fixed income. ORP includes $3,023,795 invested in equity type funds and $882,631 in domestic fixed income:

Issuer	Fair Value 2006	Fair Value 2005	Average Rating on Underlying Issues
Great West Guaranteed Fund	$ 784,260	$ 680,359	AAA
Janus Flexible Fund	10,134	9,048	AA
Maxim Loomis Bond Fund	88,237	121,097	A+
Total	**$ 882,631**	**$ 810,504**	

K. CAPITAL OUTLAY PROJECT

In 2004, LASERS began a capital project for the design, development and implementation of computer software for a new pension administration system. This project is expected to take a minimum of three years to complete. The new system is named the State of Louisiana Retirement Information System, or SOLARIS. SOLARIS will replace the current pension administration system with applications that will offer enhanced core pension administration functions. The objectives of the SOLARIS project are to improve service and reporting levels for member agencies, members, and retirees while improving internal system work flows and increasing the efficiency of the LASERS staff.

In May 2004, LASERS adopted an internal policy for the capitalization of certain costs related to the project. The policy separates the activity of the project into three stages:

- Preliminary project stage
- Application development stage
- Post-implementation/operation stage

Expenditures related to the preliminary project and the post-implementation/operation stages are expensed as incurred. Certain costs of the application development stage may be capitalized. Activities expensed as incurred follow guidelines of AICPA SOP 98-1 and include reengineering efforts, data conversion and cleanup, and training. The pension payroll phase of the project went live in June 2006 and the membership phase of the project is expected to go live in the second quarter of fiscal year 2008. The project cost summary is as follows:

	Capitalized	Non-Capitalized	Expenditures
Approved Budget			**$ 28,839,672**
FYE 2004	$ -	$ 1,696,589	1,696,589
FYE 2005	1,416,516	4,885,694	6,302,210
FYE 2006	3,420,423	3,455,472	6,875,895
Total	**$ 4,836,939**	**$ 10,037,755**	**14,874,694**
Budget Remaining			**$ 13,964,978**

L. LEGISLATIVE CHANGES

Act 75 of the 2005 Louisiana Regular Session made several changes to the Plan for regular members hired on or after July 1, 2006. The regular employee contribution rate increased to 8.0% for members hired on or after July 1, 2006, unless the member has been grandfathered by having service credit earned prior to July 1, 2006, which has not been refunded. Members hired on or after July 1, 2006, will have their average compensation calculated over the sixty highest months of successive employment or for the sixty highest joined months of successive employment where interruption of service occurred. Any member hired on or after July 1, 2006, that was not grandfathered shall be eligible for retirement when they have ten years of service credit at age sixty or thereafter. Act 75 also changed the disability benefit calculation for members employed on or after July 1, 2006, to a 1.8% accrual.

Act 835 of the 2006 Louisiana Regular Legislative Session increases Peace Officers employed by the Department of Public Safety and Correction, office of state police, other than state troopers employee contribution rate to 9.0% and the annual accrual rate to 3.33% for each year of qualifying service. All other benefit provisions remain the same as those for regular members.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
For The Six Years Ended June 30, 2006
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	$ 6,418,296	$ 8,652,591	$ 2,234,295	74.2%	$ 1,782,884	125.3%
2002	6,460,594	9,206,734	2,746,140	70.2%	1,861,887	147.5%
2003	6,487,538	9,796,306	3,308,768	66.2%	1,924,680	171.9%
2004	6,097,815	10,237,574	4,139,759	59.6%	2,017,726	205.2%
2005	6,673,500	10,847,062	4,173,562	61.5%	2,100,043	198.7%
2006	7,430,784	11,548,680	4,117,896	64.3%	1,979,705	208.0%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by $701,618,651 from June 30, 2005, to June 30, 2006. There was a net experience gain of $156,583,505. Act 835 of 2006 Louisiana Regular Legislative Session increased the benefit formula for Peace Officers, increasing the liability $1,701,685.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Six Years Ended June 30, 2006

Date	Annual Required Contribution	Percentage Contributed
2001	$ 258,281,738	100.7%
2002	279,119,335	97.2%
2003	326,335,197	94.8%
2004	367,881,226	95.4%
2005	411,727,561	99.2%
2006	423,502,813	93.1%

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

ACTUARIAL METHODS AND ASSUMPTIONS
JUNE 30, 2006

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, 2006
Actuarial Cost Method	Projected unit credit
Amortization Method – Closed by Statute	For unfunded accrued liability prior to 1993 - Level percentage of payroll, increasing annuity to 2029 For unfunded accrued liability changes occurring between 1993-1998 – Level dollar payment to 2029 For unfunded accrued liability changes occurring 1999 or later – Level dollar payment over 30 years, from date of occurrence
Remaining Amortization Period	23 – 30 years, dependent upon the amortization method as described above
Asset Valuation Method	Utilizes a four year weighted average of the unrealized gain or loss in the value of all assets at market.
Actuarial Assumptions:	
Investment Rate Of Return	8.25% per annum
Inflation Rate	3.0% 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 (1997-2001) experience study of the System's members.
Salary Increases	Salary increases were projected based on a 1997-2001 experience study of the System's members. The salary increase range for regular employees is 4.25% - 14.0%. The salary increase range for specific types of members is Judges 2.5% - 4.7%, Corrections 4.0% - 14.0%, and Wildlife 6.5% - 18.0%.
Cost-Of-Living Adjustments	Liability for raises already granted is included in the retiree reserve.

SUPPORTING SCHEDULES

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES - BUDGET AND ACTUAL
For The Years Ended June 30, 2006 And 2005

	2006			2005		
	Actual	Budget	Variance Favorable (Unfavorable)	Actual	Budget	Variance Favorable (Unfavorable)
Administrative Expenses:						
Salaries and Related Benefits	$ 9,398,923	$ 10,511,105	$ 1,112,182	$ 8,945,698	$ 9,663,632	$ 717,934
Travel	112,440	262,823	150,383	176,524	267,766	91,242
Operating Services	2,408,381	3,301,621	893,240	2,973,605	3,340,813	367,208
Professional Services	6,515,888	8,780,635	2,264,747	4,407,287	5,862,498	1,455,211
Acquisitions[1]	508,019	573,025	65,006	2,092,359	2,264,640	172,281
Total Budget and Actual Expenditures	**$ 18,943,651**	**$ 23,429,209**	**$ 4,485,558**	**$ 18,595,473**	**$ 21,399,349**	**$ 2,803,876**
Capitalized Expenditures:						
Solaris Software Project - Personnel Costs[2]	(865,789)	(865,789)	-	(126,251)	(126,251)	-
Solaris Software Project - Professional Services[2]	(2,557,337)	(2,557,337)	-	(1,290,265)	(1,290,265)	-
Other Acquisitions[1]	(328,244)	(328,244)	-	(1,179,585)	(1,403,862)	(224,277)
Total Capitalized Expenditures	**$ (3,751,370)**	**$ (3,751,370)**	**$ -**	**$ (2,596,101)**	**$ (2,820,378)**	**$ (224,277)**
Total Administrative Expenses	**$ 15,192,281**	**$ 19,677,839**	**$ 4,485,558**	**$ 15,999,372**	**$ 18,578,971**	**$ 2,579,599**
Investment Fee Expenses	**$ 28,869,631**	**$ 30,225,179**	**$ 1,355,548**	**$ 24,114,417**	**$ 24,115,780**	**$ 1,363**
Depreciation Expense[3]	**$ 750,463**	**$ -**	**N/A**	**$ 760,927**	**$ -**	**N/A**

[1]In 2005, the capitalization policy was changed to expense purchased computer software of less than $5,000 and movable property of less than $1,000.

[2]The capitalization policy for internally developed software expenses costs for preliminary project phases, reengineering efforts, data conversion and cleanup, and training as the costs are incurred. Internal and external costs incurred to develop internal-use computer software is capitalized by module and will be depreciated over 3 years once operational, following AICPA SOP 98-1 guidelines.

[3]Depreciation is not a budgeted administrative expense.

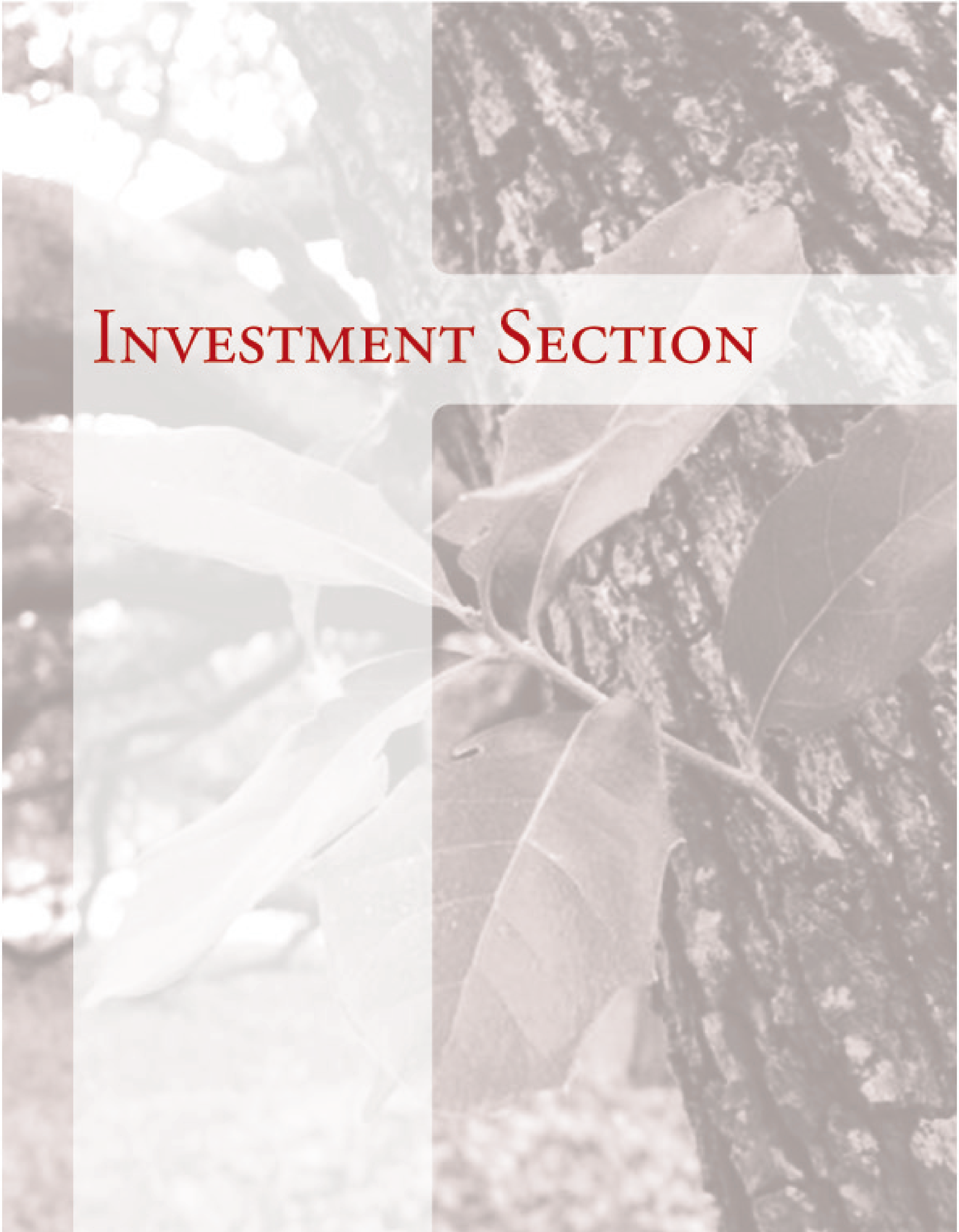
SCHEDULE OF BOARD COMPENSATION
For The Years Ended June 30, 2006 And 2005

	2006		2005	
Board of Trustees	Number of Meetings	Amount	Number of Meetings	Amount
Cynthia Bridges	15	$ 1,125	19	$ 1,425
Virginia Burton	23	1,725	24	1,800
Connie Carlton	21	1,575	22	1,650
Barbara McManus McCann	20	1,500	19	1,425
Louis Quinn	21	1,575	22	1,650
Sheryl Ranatza	20	1,500	21	1,575
Kathy Singleton	20	1,500	20	1,500
Lorry Trotter (1)	12	-	0	-
Cheryl Turner	5	375	17	1,275
Trudy White	19	1,425	23	1,725
Total Compensation		**$ 12,300**		**$ 14,025**

(1) Lorry Trotter elected to not be compensated for her Board meeting attendance because she would have to resign from the agency where she is employed.

SCHEDULE OF PROFESSIONAL SERVICE EXPENSES
For The Year Ended June 30, 2006

Accounting and Auditing		
Postlethwaite and Netterville, APAC - System Auditors	$ 40,500	
Government Finance Officers Association	1,270	
		$ 41,770
Actuarial Fees		
Hall Actuarial Associates - System Actuary	130,000	
		130,000
Legal Fees		
Tarcza & Associates, LLC	20,516	
Taylor, Porter, Brooks, & Phillip	6,559	
Roedel, Parsons, Koch, Balhoff & McCollister	2,852	
Other Legal Fees	20	
		29,947
Disability Program		
Physician and Other Reviews	76,475	
		76,475
Investment Performance Management and Analytical Services		
ISS	37,500	
Plexus Group	29,000	
Cost Effectiveness Measurement	18,500	
		85,000
Investment Consultation		
New England Pension Consultants	270,788	
		270,788
Other Professional Services		
Bearing Point	2,526,727	
Maximus	508,981	
SSA Consultants	85,310	
Election Service Company	70,865	
SunGard Recovery Services LP	43,216	
Sparkhound	30,015	
Syscom, Inc.	10,586	
Investment Training & Consulting	10,350	
Westaff Temporary Staffing	7,303	
Omgeo, LLC	5,600	
Systime	5,175	
Other Non-Consultant Professionals	20,443	
		3,324,571
Professional Services Expenses		**$ 3,958,551**



Investment Section

LASERS
Louisiana State Employees' Retirement System
8401 United Plaza Blvd. • Baton Rouge, LA 70809
Mail: P.O. Box 44213 • Baton Rouge, LA 70804-4213 Phone: (toll-free) 1.800.256.3000 • (local) 225.922.0600

September 8, 2006

Dear Members,

For the Fiscal Year ended June 30, 2006, LASERS achieved a strong positive return for the third consecutive year. The plan benefited from strong equity returns, especially in international markets, and its private equity investments.

The investment portfolio completed the Fiscal Year with a market value return of 11.9% and an actuarial return of 12.96%. Based on the market return, LASERS ranked in the top 29 percent of public pension plans with assets greater than $1 billion in the ICC Universe, which consists of 120 large pension plans in the United States. In addition, LASERS ranked in the top 28 percent for both the three and five year periods.

As always, LASERS is committed to maintaining a broadly diversified portfolio and achieving its target rate of return of 8.25% with the least possible amount of risk. To do this, LASERS adopts carefully underwritten and conservative assumptions for future expected returns, while structuring the investment portfolio to optimize the risk/return trade-off.

The Investment Division continuously seeks to be a premier pension plan by creating, implementing, and evaluating its strategic goals and objectives. We strive to be a plan that is forward thinking, disciplined, and efficient. This includes continuously looking to lower overall investment costs while maintaining a high degree of expertise.

During the fiscal year, LASERS has evaluated the use of additional internally managed equity portfolios to both maintain exposure to appropriate asset classes and lower overall investment management costs. LASERS also changed custodians within the last year which has enhanced internal controls for better monitoring of investment managers and allowed for the division workload to be streamlined thereby improving efficiency. We continue to monitor trading commission per share costs and will continue our goal of low investment manager trade execution costs.

Current strategic goals include adding an international equity portfolio to our internally managed assets program, furthering the development of both our risk management and private equity programs, and exploring new asset allocation strategies to improve long-term returns.

Going forward, we are committed to improving upon what we have already achieved and diligently working toward the accomplishment of our new strategic goals. We continue to believe that LASERS is well positioned to meet its long-term goals and objectives.

Sincerely,

Robert W. Beale, CFA
Chief Investment Officer

"Advancing Your Investments"
NEW ENGLAND PENSION CONSULTANTS

RHETT HUMPHREYS, CFA
PARTNER & SR. CONSULTANT

August 26, 2006

Board of Trustees, Staff, & Members
Louisiana State Employees' Retirement System
Baton Rouge, LA 70804

RE: Fiscal Year 2006 Comprehensive Annual Financial Report

Dear Members:

This letter summarizes the structure and performance of the Louisiana State Employees' Retirement System (LASERS) Fund through Fiscal Year Ending June 30, 2006.

As of the June 30th fiscal year-end, the Fund was in compliance with policy and Louisiana state law, and had 45.5% of its asset base invested in US equities, 17.7% invested in non-US equities, 16.8% in US fixed income, 6.2% in global fixed income, 10.3% in alternative assets (real estate, absolute return funds, and private equity), and 3.5% in cash. The public equity portion of the Fund represented 63.2% of the total assets, below the applicable statutory limit of 65% and slightly above that of the median public pension fund. Over the past year, the Fund has maintained equity levels modestly higher than the median equity allocation when measured against the Independent Consultants Cooperative (ICC) Universe.

LASERS earned 11.9%[1] in the year ending June 30, 2006, which ranked in the top 15% of public funds within the ICC Universe. Over the last 12 months ending June 30, 2006, LASERS outperformed its nominal total return target of 9.35% by 2.55%. The Fund also outperformed its real return target of 4% by 6.2 percentage points over the same 12 months.

The US and global economies for fiscal year 2006 continued to be very positive in spite of a rash of unfortunate events: additional increases in short-term

[1] Return data for the Fund was reconciled from manager provided time-weighted returns that were calculated in accordance with the CFA Institute's Performance Presentation Standards (PPS).® Valuations, where available, are based on published national securities exchange prices, as provided by LASERS' custodian, Mellon Bank.

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interest rates, burgeoning US federal government deficits, large spikes in energy prices, tragic Gulf Coast hurricanes, and continued mid-east uncertainty. The period ended with strong market returns across the board for almost every equity market. Once again, LASERS benefited from its equity allocations and global diversification. In particular, LASERS enjoyed the large run-up in international equity assets and in US private equity holdings. In fact, over the past five years ending June 30, 2006, LASERS' globally-diversified portfolio ranked in the top third of all public funds within the ICC Universe on a risk-adjusted return basis.

Fiscal Year 2006 performance continued to be above target and above average. We persist in our belief that LASERS is well positioned to continue to take advantage of a wide variety of investment opportunities and is sufficiently diversified to both enhance return and mitigate overall portfolio risk.

Sincerely,

Rhett Humphreys

Rhett Humphreys, CFA
Partner and Senior Consultant

STATEMENT OF INVESTMENT OBJECTIVES

I. INTRODUCTION

The Louisiana State Employees' Retirement System (LASERS) was created to provide retirement benefits for employees of the State of Louisiana. A Pension Trust Fund was created to help finance the costs associated with funding retirement benefits.

Because of LASERS obligation to the plan participants and their beneficiaries, the disposition of LASERS assets shall be made solely in the interest of providing benefits to the participants. Investments shall be made in a cost efficient manner, and reflect industry best practices.

This Statement of Investment Policy and Objectives is designed to clearly communicate the directives of the Trustees of LASERS to all interested parties. It shall be revised from time to time, as deemed necessary. Any resulting material changes will be communicated to all affected parties.

II. RELEVANT LEGISLATION AND REGULATION

LASERS shall operate under the "Prudent Person" rule, (La. R.S. 11:263.B) used herein meaning that in investing the governing authorities of the systems, funds, and plans shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income.

Investments of the Louisiana State Employees' Retirement System shall be made in full accordance with Louisiana Revised Statutes, as well as any other applicable legislation or regulation. LASERS shall adhere to the policies and procedures outlined in the Board Governance Policy, the Statement of Investment Policy for In-State Private Equity, Emerging Businesses, and Money Managers, as well as Vendor Selection Policies.

LASERS is subject to a legislative limit restricting the Fund so that no more than 65% of its total assets are invested in publicly traded equities. Alternative assets are not considered to be equities when calculating LASERS equity exposure. LASERS will take steps to rebalance if, at the end of its fiscal year, its exposure to publicly traded equities is above 65%. LASERS is aware that markets will fluctuate, and any rebalancing will appropriately consider market conditions and any other relevant factors.

Should LASERS have more than 55% of its total assets invested in publicly traded equities, at least 10% of those equities must be invested passively.

III. ROLES AND RESPONSIBILITIES

The Board of Trustees

The Board of Trustees is responsible for the total investment program. The Board shall approve the investment policy and provide overall direction to the administrative staff in the execution of the investment policy. Additionally, the Board of Trustees will conduct formal annual evaluations of both the investment consultant and custodian.

The Investment Committee

The Investment Committee, at the direction of the full Board, shall review and approve or disapprove investment recommendations not governed by Investment Policy prior to their execution. The Committee may also review and recommend investment policy changes, deletions, or additions. The Committee also shall make recommendations to the full Board concerning contracts of a financial nature, when performed by other than LASERS staff, such as, although not limited to, those for investment management, custodial arrangements, and securities lending.

Chief Investment Officer

The Chief Investment Officer (CIO) shall assist the Board in developing and modifying policy objectives and guidelines, including the development of liability-driven asset allocation strategies and recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies. Choosing appropriate manager styles and strategies will include assisting the Board in formally and regularly evaluating the use of index funds as an alternative to active management. Additionally, the CIO shall provide assistance in manager searches and selection, and investment performance calculation, evaluation, and any other analysis associated with the proper execution of the Board's directives.

The CIO shall also communicate the decisions of the Investment Committee to investment managers, custodian bank(s), actuary, and consultant. The CIO provides oversight of the investment consultant, investment service providers and personnel of LASERS investment division.

Investment Consultant

The Investment Consultant shall assist the Board and the CIO in developing and modifying policy objectives and guidelines, including the development of a liability-driven asset allocation strategy and recommendations on the appropriate mix of investment manager styles and strategies. The Consultant shall act as a fiduciary to the Fund.

Additionally, the Consultant shall provide assistance in manager searches and selection, investment performance evaluation, and assist both the Board and CIO in ensuring that the use of index funds as an alternative to active management is formally and regularly evaluated. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board, the Investment Committee, or the CIO.

Investment Managers

The duties and responsibilities of each of the investment managers retained by the Board include:

- Investing the assets under its management in accordance with the policy guidelines and objectives expressed herein.
- Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods.
- Exercising investment discretion within the guidelines and objectives stated herein. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives.
- Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary. Fund assets should be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Fund assets.
- Complying with the CFA Institutue Code of Ethics and Performance Presentation Standards (PPS).
- Disclosing all conflicts and potential conflicts of interest.
- Ensuring that all portfolio transactions are made on a "best execution" basis.
- Exercising ownership rights, where applicable.
- Meeting with the Board as needed upon request of the Board. Quarterly reports are to be submitted in writing within 45 days after the end of each quarter.
- Acknowledging in writing to the Board the investment manager's intention to comply with this Statement as it currently exists or as modified in the future.
- Promptly informing the Board regarding all significant matters pertaining to the investment of the Fund assets.
- Initiating written communication with the Board when the manager believes that this Investment Policy is inhibiting performance and/or should be altered for any valid reason. No deviation from the guidelines and objectives established in the Policy is permitted until after such communication has occurred and the Board has approved such deviation in writing.

- Reconciling performance, holdings and security pricing data with the Fund's custodian bank. If the Fund's custodian bank shows a different price for a given security, the manager shall submit to the custodian bank's price reconciliation process. Managers shall provide to LASERS staff a summary of reconciled holdings both in hard copy and the electronic format of LASERS choosing.

Custodian Bank

In order to maximize LASERS investment return, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly. The Custodian(s) will be responsible for performing the following functions:

- Accept daily instructions from designated investment staff.
- Advise designated investment staff daily of changes in cash equivalent balances.
- Immediately advise designated investment staff of additions or withdrawals from account.
- Notify investment managers of tenders, rights, fractional shares or other dispositions of holdings.
- Notify appropriate entities of proxies.
- Resolve any problems that staff may have relating to the custodial account.
- Safekeeping of securities.
- Interest and dividend collections.
- Daily cash sweep of idle principal and income cash balances.
- Processing of all investment manager transactions.
- Collection of proceeds from maturing securities.
- Disbursement of all income or principal cash balances as directed.
- Providing monthly statements by investment managers' accounts and a consolidated statement of all assets.
- Providing monthly performance reports and quarterly performance analysis reports.
- Providing a dedicated account representative and back up to assist the LASERS staff in all needs relating to the custody and accountability of the Fund's assets.
- Managing the securities lending program (if applicable).

IV. INVESTMENT OBJECTIVES

Nominal Return Requirements

The investment program shall be structured to preserve and enhance principal over the long term, in both real and nominal terms. For this purpose, short-term fluctuations in values will be considered secondary to long-term investment results. Moreover, the investments of the Fund shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so. Total return, which includes realized and unrealized gains, plus income less expenses, is the primary goal of LASERS.

The actuarially required total rate of return for the Fund is 8.25% annually, net of all fees and operating expenses. The Board desires a net total return in excess of 9.35%, in order to help the Board grant additional retirement benefits, and the ability to improve the funded ratio of the Fund through investment earnings. Therefore, the Board has adopted the following target nominal rate of return:

Actuarially required rate of return:	8.25%
Excess Return:	1.10%
Target Total Nominal Rate of Return:	9.35%

Real Return Requirements

The Board is aware that the preservation of purchasing power is driven by inflation; therefore a real return requirement has also been established. As the Consumer Price Index (CPI) is the most commonly accepted measure of inflation, the Board has defined its' real return target as the Nominal return less CPI. The real return target is set at 4.0%.

Relative Return Requirements

Total returns for LASERS shall rank in the top half of the appropriate public fund universe, reflecting similar circumstances to LASERS. Risk-adjusted returns should also rank in the top half of the same universe. The Total Fund return should, over time, exceed the Policy and Allocation Indices (see Section VIII for a description of how the Policy and Allocation Indices are calculated.) Returns for LASERS managers shall exceed their respective benchmarks, as well as rank in the top half of the appropriate universe of managers adhering to the same investment strategy.

The Board further recognizes that the return targets described herein may not be achieved in any single year. Instead, a longer-term horizon of 3-7 years shall be used in measuring the long-term success of the Fund. While the Board expects that returns will vary over time, LASERS has a risk tolerance consistent with that of other funds created for similar purposes, and the assets of the Fund shall be invested accordingly.

V. ASSET ALLOCATION

This guideline is to be pursued by LASERS on a long-term basis, but will be revised if significant changes occur within the economic and/or capital market environments. A change in liability structure, funded status, or long-term investment prospects may trigger a revision of the asset allocation.

Permitted Asset Classes

Traditional Assets

- U.S. Large Cap Equity
- U.S. Mid Cap Equity
- U.S. Small Cap Equity
- U.S. Fixed Income
- International Equity
- Emerging Markets Equity
- Global Fixed Income

Non-Traditional Assets

- Private Equity Fund of Funds - Domestic and International
- Venture Capital
- Mezzanine Debt
- Buyouts
- Special Situations
- Market Neutral Equity
- Certain Absolute Return Funds with appropriate transparency and liquidity (e.g. Merger/Convertible Arbitrage, Fund of Funds) may be selected for investment.

Target Asset Mix

Asset Class	Market Value Target (%)	Minimum Exposure (%)	Maximum Exposure (%)
Equities	**61**	**55**	**65**
Domestic Large Cap	27	24	30
Domestic Small Cap	13	11	15
Domestic Mid Cap	5	3	7
Established Internationall (Lg Cap)	9	7	11
Established International (Sm Cap)	4	3	5
Emerging International Equity	3	2	4
Fixed Income	**29**	**24**	**34**
Core Fixed Income	7	4	10
Mortgages	5	3	7
Domestic High Yield	8	6	10
Global Bonds	6	4	8
Cash	3	0	7
Alternative Assets	**10**	**0**	**15**
Private Equity	5	0	9
Absolute Return	5	3	7

Implementation

LASERS recognizes that special expertise is required to properly invest the majority of the assets described above. However, certain highly efficient passively managed investment strategies lend themselves to internal management, potentially resulting in lower management fees for the Fund as a whole. Where appropriate, LASERS will manage these assets internally, so long as the same level of care, prudence and oversight is maintained that an outside professional investment advisor would typically provide.

Style Allocation

LASERS shall strive to maintain a neutral bias with respect to Style Allocation (Growth versus Value) in its equity investments. LASERS recognizes that over the long run, returns from Growth and Value investing tend to approximate each other; over shorter periods, however, differences in returns can be significant. The CIO, as part of the normal rebalancing responsibilities, shall use appropriate judgment and care when rebalancing style-biased portfolios.

Active Passive Mix

LASERS shall make use of passive strategies only where passive management, after all fees and expenses, can effectively compete with actively managed portfolios in terms of returns and variability of returns.

Rebalancing

LASERS CIO will review LASERS asset allocation at least quarterly to determine if the asset allocation is consistent with the exposure ranges established for LASERS described herein. The CIO will direct staff and investment managers to transfer funds to rebalance the asset allocation as necessary with subsequent Board notification. The transfers should be on a pro-rata basis. The CIO will consider market conditions and transaction costs, as well as any other relevant factors when rebalancing.

VI. MANAGER SELECTION

LASERS will not consider the selection of any manager without first setting a target allocation to a particular asset class, and determining that a manager is needed to implement that allocation strategy. Once LASERS has determined that a manager search is warranted, it will establish certain minimum criteria for a manager to be considered eligible to participate in the search.

LASERS intends that any qualified candidate receive fair consideration. Therefore, the manager selection process will typically take place via an open Request for Proposal (RFP), except for certain private equity opportunities, which are described below. All searches shall be publicly advertised for a predetermined amount of time, and prospective candidates shall be required to submit a proposal based on a predetermined RFP. The RFP shall be designed to ensure that managers are fairly and completely evaluated using industry best practices. LASERS shall strive to hire investment managers that offer the greatest incremental benefit to the Fund, net of fees and expenses, in accordance with, but not limited to, the criteria listed below: LASERS is not required to perform a manager search due to a predetermined contract period ending if it is the desire of LASERS to retain manager. LASERS will adhere to the vendor selection criteria in LASERS Board Governance Policy.

- Length of firm history
- Length of key professionals' tenure
- Appropriateness of investment philosophy and process
- Fit between product and existing plan assets, liabilities and objectives
- Absolute and relative returns, and variability of returns
- Stability of the firm's client base and assets under management
- Ownership structure
- Compensation structure
- Fee structure
- References and professional qualifications

Private Equity Addendum:

From time to time LASERS may be approached by private equity managers raising assets for new funds. As private equity does not lend itself to traditional manager searches (most private equity products have only brief, discrete time periods during which they are raising assets) LASERS shall seek to perform the same level of due diligence on these opportunities as it would in a typical manager search. LASERS will consider an additional investment with an existing manager only if the investment philosophy, process, people, performance and fees are materially similar to previous investments. LASERS may invest with a new manager only after the appropriate due diligence is performed.

VII. INVESTMENT MANAGER GUIDELINES

Introduction

Full discretion, within the parameters of the guidelines described herein, is granted to the investment managers regarding the selection of securities, and the timing of transactions.

Compliance with all guidelines must be monitored by the investment managers on a regular basis (monthly or more frequently when market conditions warrant) and based on then current market values. Securities that, at purchase, would move the portfolio out of compliance with these guidelines, based on the investment manager's most recent valuation, may not be purchased.

In the event that a portfolio moves out of compliance with these guidelines (as identified in the investment manager's regular review of the portfolio), through market conditions or other changes outside the control of the manager, the manager must bring the portfolio composition back into compliance within 45 days or make a written request to LASERS Investment Committee for a compliance waiver.

Monitoring and Verification

Certain guidelines lend themselves to straightforward manager compliance monitoring. Where monitoring is possible using quarterly holdings and transaction information provided by the Fund's Custodian Bank, the Consultant shall be responsible for alerting the Investment Committee and the Fund's Chief Investment Officer if a manager is out of compliance. In addition, the Custodian Bank will provide LASERS with the ability to monitor manager compliance with these guidelines by way of their Investment Policy Reporting software.

Guidelines which do not lend themselves to straightforward manager compliance monitoring shall rely on manager supplied attestations of compliance. A guideline compliance checklist shall be reviewed every quarter to ensure that all managers have reported guideline compliance, and note instances where managers claim to be out of compliance.

VIII. INVESTMENT MANAGER MONITORING

General Guidelines

LASERS shall monitor and evaluate manager performance using the following resources:

- Monthly performance reports
- Quarterly Investment Performance and Portfolio Analysis
- Comprehensive Manager Reviews at the end of a manager's 5-year contract with LASERS
- Other analyses as needed

Manager Evaluation

- LASERS portfolios shall be measured over various and appropriate time periods.
- A horizon of 3-7 years shall be used in measuring the long-term success of the Fund.
- Shorter time periods shall be evaluated as appropriate and necessary. LASERS shall make every effort to look at all factors influencing manager performance, and attempt to discern market cyclicality from manager over/underperformance.
- On a timely basis, at least quarterly, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether the investment managers performed satisfactorily when compared with the objectives set and in relation to other similarly managed funds.
- The Board will re-evaluate, from time to time, its progress in achieving the Total Fund, equity, fixed income, and international equity segments objectives previously outlined.
- The periodic re-evaluation will also involve an assessment of the continued appropriateness of: (1) the manager structure; (2) the allocation of assets among the managers; and (3) the investment objectives for LASERS assets.
- The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultant(s) selected by the Board are expected to be familiar with the investment practices of similar retirement plans and will be responsible for suggesting appropriate changes in LASERS investment program over time.

Manager Probation

LASERS investment managers may be placed on a watch list in response to the Investment Committee's concerns about the manager's recent or long-term investment results, failure of the investment advisor to comply with any of LASERS investment guidelines, significant changes in the investment advisor's firm, anticipated changes in LASERS structure, or any other reasons which the Investment Committee deems appropriate. An advisor may be placed on probationary status if:

- Any advisor whose performance fails, over eight consecutive quarters or any eight quarters during a ten quarter period, to achieve median same style universe performance levels as defined by LASERS, and
- During this same period the return does not meet the return of the benchmark index.

This does not preclude LASERS from placing an advisor on the watch list for performance in a lesser time period or taking other actions if deemed appropriate by LASERS.

Performance Benchmarks

Total Fund Return: The Total Fund return shall be compared against other public pension plans. LASERS shall seek to compare its returns against other funds of similar size and circumstances. LASERS Total Fund return shall meet or exceed the Allocation Index return and the Policy Index return, which are each described below.

Allocation Index: The Allocation Index return shall measure the success of the Fund's *current* allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the actual percent allocated to each asset class. The difference between the Allocation Index return and the Total Fund return measures the effect of active management. If the Total Fund return is greater than the Allocation Index return, then active management has in aggregate added value. If the Total Fund return is less than the Allocation Index return, then active management has not added value.

Policy Index: The Policy Index return shall measure the success of the Fund's *target* allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the percent targeted to each asset class. The difference between the Allocation Index return and the Policy Index return measures the effects of deviating from the target allocation. If the Allocation Index return is greater than the Policy Index return, then deviating from the target allocation has added value. If the Allocation Index return is less than the Policy Index return, then active management has not added value.

Manager Benchmarks: LASERS Investment Managers shall be compared to a combination of passively managed index returns matching the managers' specific investment styles, as well as the median manager in their appropriate peer group universe. Specific benchmarks and peer groups are established for each manager.

SECURITY HOLDINGS SUMMARY REPORT
June 30, 2006

Securities	Cost ($)	Market Value ($)	Percent of Market
Fixed Income			
Corporate Bonds	$ 660,184,128	$ 643,800,089	8.2%
Other Bonds	40,910,305	40,337,816	0.5%
Common Stock - Commingled Funds Fixed Income	41,151,108	41,134,217	0.5%
Total Corporate Bonds	**742,245,541**	**725,272,122**	**9.2%**
Federal Agency Sponsored	457,214,460	437,761,979	5.6%
CMO'S	81,391,047	80,150,963	1.0%
Federal Sponsored	17,008,204	16,711,384	0.2%
U. S. Treasury Notes	34,721,679	33,958,382	0.4%
U. S. Treasury Bonds	9,166,402	8,873,452	0.1%
Total U.S. Government/Agency Bonds	**599,501,792**	**577,456,160**	**7.3%**
Foreign Corp Bonds	23,573,786	23,592,791	0.3%
Foreign Corp Yankee Bonds	49,057,235	48,865,263	0.6%
Foreign Govt Bonds	430,556,010	440,893,405	5.6%
Foreign Govt Yankee Bonds	7,557,144	7,755,663	0.1%
Common Stock - Commingled Funds Fixed Income	7,875,731	15,836,309	0.2%
Total International Bonds	**518,619,906**	**536,943,431**	**6.8%**
Total Fixed Income	**1,860,367,239**	**1,839,671,713**	**23.3%**
Equity			
Common Stock-Domestic	2,992,053,712	3,446,829,479	44.0%
Common Stock - Commingled Funds Equity	405,897,114	622,957,326	7.9%
Common Stock - Preferred	-	-	0.0%
Total Domestic Stock	**3,397,950,826**	**4,069,786,805**	**51.9%**
Common Stock-ADR	10,577,206	13,350,214	0.2%
Common Stock - Commingled Funds Equity	-	-	0.0%
Common Stock -Foreign	651,720,244	816,698,687	10.4%
Preferred Stock -Foreign	850,945	1,118,420	0.0%
Stock Warrants & Rights	1,041,446	991,789	0.0%
Total International Stock	**664,189,841**	**832,159,110**	**10.6%**
Total Equity	**4,062,140,667**	**4,901,945,915**	**62.5%**
Alternative Investments			
Real Estate Investment Pools	35,706,108	46,265,701	0.6%
Private Placements	742,645,242	811,697,419	10.3%
Total Alternative Investments	**778,351,350**	**857,963,120**	**10.9%**
Short-Term Investments			
Domestic Short-Term	267,778,423	267,778,423	3.3%
Total Short-Term Investments	**267,778,423**	**267,778,423**	**3.3%**
Grand Total Investments	**$ 6,968,637,679**	**$ 7,867,359,171**	**100.0%**

SECURITY HOLDINGS SUMMARY REPORT
June 30, 2005

Securities	Cost ($)	Market Value ($)	Percent of Market
Fixed Income			
Corporate Bonds	$ 630,961,018	$ 641,801,123	9.0%
Other Bonds	40,124,746	40,152,338	0.6%
Common Stock - Commingled Funds Fixed Income	34,135,704	34,158,197	0.5%
Total Corporate Bonds	**705,221,468**	**716,111,658**	**10.1%**
Federal Agency Sponsored	23,886,452	24,431,612	0.3%
CMO'S	64,922,497	65,135,754	0.9%
Federal Sponsored	386,959,834	391,044,351	5.5%
U. S. Treasury Notes	36,367,348	36,488,541	0.5%
U. S. Treasury Bonds	11,016,173	11,842,824	0.2%
Total U.S. Government/Agency Bonds	**523,152,304**	**528,943,082**	**7.4%**
Foreign Corp Bonds	21,939,343	23,485,832	0.3%
Foreign Corp Yankee Bonds	59,524,308	61,765,160	0.9%
Foreign Govt Bonds	348,522,651	381,534,702	5.4%
Foreign Govt Yankee Bonds	5,174,156	5,457,398	0.1%
Common Stock - Commingled Funds Fixed Income	7,875,731	14,120,380	0.2%
Total International Bonds	**443,036,189**	**486,363,472**	**6.9%**
Total Fixed Income	**1,671,409,961**	**1,731,418,212**	**24.4%**
Equity			
Common Stock-Domestic	2,737,290,759	3,121,750,620	44.1%
Common Stock - Commingled Funds Equity	43,034,919	48,870,369	0.7%
Common Stock - Preferred	-	-	0.0%
Total Domestic Stock	**2,780,325,678**	**3,170,620,989**	**44.8%**
Common Stock-ADR	79,048,203	86,678,016	1.2%
Common Stock - Commingled Funds Equity	460,437,788	539,248,385	7.6%
Common Stock -Foreign	528,081,277	611,969,885	8.6%
Preferred Stock -Foreign	3,695,114	4,306,766	0.1%
Stock Warrants & Rights	110,011	482,914	0.0%
Total International Stock	**1,071,372,393**	**1,242,685,966**	**17.5%**
Total Equity	**3,851,698,071**	**4,413,306,955**	**62.3%**
Alternative Investments			
Real Estate Investment Pools	34,808,494	39,812,367	0.6%
Private Placements	673,391,019	678,419,191	9.5%
Total Alternative Investments	**708,199,513**	**718,231,558**	**10.1%**
Short-term Investments			
Domestic Short-Term	254,840,991	254,840,991	3.2%
Total Short-Term Investments	**254,840,991**	**254,840,991**	**3.2%**
Grand Total Investments	**$ 6,486,148,536**	**$ 7,117,797,716**	**100.0%**

LARGEST EQUITY HOLDINGS

June 30, 2006
(Excludes Commingled Funds)

	Shares	Stock Description	Market Value
1)	1,049,600	EXXON MOBIL CORP	$64,392,960
2)	1,522,800	GENERAL ELEC CO	$50,191,488
3)	1,034,100	CITIGROUP INC	$49,895,325
4)	1,850,190	MICROSOFT CORP	$43,109,427
5)	706,333	BANK AMER CORP	$33,974,617
6)	1,403,642	PFIZER INC	$32,943,478
7)	548,493	JOHNSON + JOHNSON	$32,865,701
8)	578,792	PROCTER AND GAMBLE CO	$32,180,835
9)	720,824	J P MORGAN CHASE + CO	$30,274,608
10)	1,385,725	CISCO SYS INC	$27,063,209
11)	424,840	PEPSICO	$25,507,394
12)	2,179,307	BP PLC ORD USD .25	$25,413,798
13)	345,050	ALTRIA GROUP INC	$25,337,022
14)	368,700	WELLS FARGO	$24,732,396
15)	292,500	INTERNATIONAL BUSINESS MACHS	$22,469,850
16)	380,021	AMERICAN INTL GROUP INC	$22,440,240
17)	658,100	VERIZON COMMUNICATION	$22,039,769
18)	682,800	HEWLETT PACKARD CO COM	$21,631,104
19)	763,836	GLAXOSMITHKLINE	$21,346,696
20)	324,863	CONOCOPHILLIPS	$21,288,272
21)	324,701	CHEVRON	$20,150,944
22)	1,115,200	TIME WARNER INC NEW	$19,292,960
23)	1,007,700	INTEL CORP	$19,146,300
24)	380,300	WAL MART STORES INC	$18,319,051
25)	279,620	SCHLUMBERGER LTD COM	$18,206,058

LASERS internally manages portfolios that are replications of the S&P 500, 400, 100, and 600 Indices. Balances of the funds at June 30, 2006 are $1,408,807,169, $406,060,138, $164,613,504, and $459,461,927, respectively. Individual securities held in these funds are included in above listed holdings.

LARGEST COMMINGLED EQUITY FUNDS

June 30, 2006

	Shares	Fund Description	Market Value
1)	17,266,224	TBCAM	$326,140,951
2)	11,267,383	SSGA ACTIVE EMG MKTS	$237,978,388
3)	112,600	ISHARES TR S&P 500 INDEX	$14,362,130
4)	310,770	RUSSELL 2000 INDEX SL	$13,288,817
5)	158,890	ISHARES TR S&P 100 INDEX	$9,229,920

LARGEST DEBT HOLDINGS

June 30, 2006

(Includes Commingled Funds)

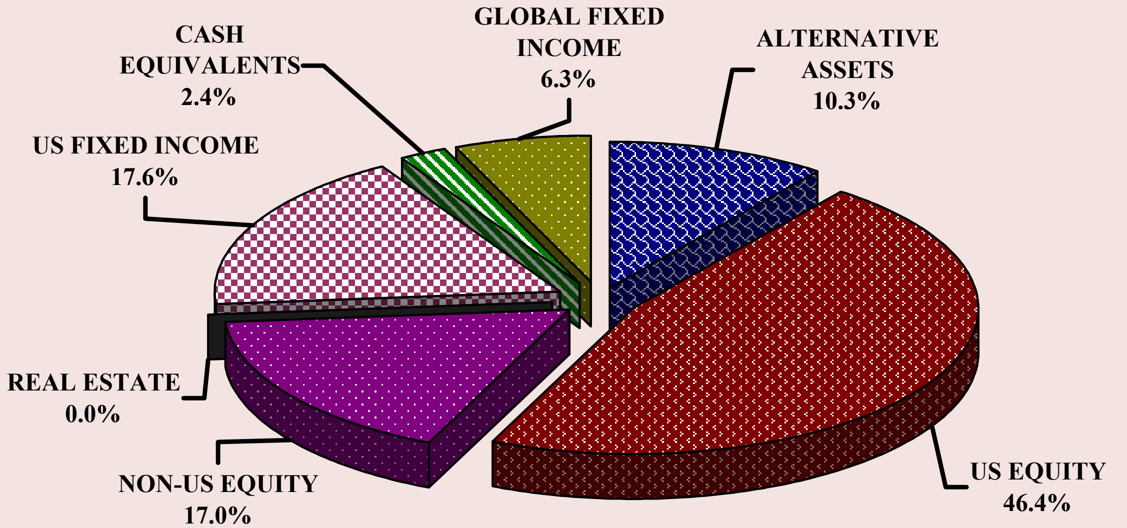
	Par Value	Bond Description	Market Value
1)	$2,700,000,000	JAPAN (GOVT) 0.3% 20 Dec 2007	$23,477,233
2)	$16,500,000	SPAIN(KINGDOM OF) 5.15% 30 Jul 2009	$21,968,217
3)	$16,000,000	BUNDESREPUBLIK DEUTSCHLAND 5% 04 Jul 2011	$21,501,778
4)	$2,500,000,000	JAPAN(GOVT OF) 1.5% 20 Mar 2015	$21,247,429
5)	$12,000,000	GERMANY(FED REP) BDS 6.25% 04 JAN 2024	$19,064,672
6)	$2,100,000,000	JAPAN(GOVT OF) BDS JYP .5% 20 Jun 2013	$16,935,205
7)	$13,000,000	GERMANY(FED REP) BDS 3.75% 04 JAN 2015	$16,314,935
8)	$609,110	WRH GLOBAL SECURITIES POOL	$15,836,309
9)	$11,000,000	FRANCE (REPUBLIC OF) 5% 25 Oct 2016	$15,141,134
10)	$14,564,810	US TREAS-CPI INFLATION INDEX	$14,994,909
11)	$1,630,000,000	INTER AMERICAN DEVELOP BANK 1.9% 08 Jul 2009	$14,643,834
12)	$9,400,000	FRANCE (REPUBLIC OF) 5.75% 25 Oct 2032	$14,639,520
13)	$19,000,000	AUSTRALIA (COMNWLTH)BDS 6.25% 15 APR 2015	$14,560,706
14)	$1,670,000,000	JAPAN(GOVT) 0.5% 20 Jun 2008	$14,518,620
15)	$8,000,000	DUTCH (GOVT OF) 750% 15 JAN 2023	$14,142,892
16)	$11,000,000	GERMANY(FED REP) BDS 3.50% 10 OCT 2008	$14,037,020
17)	$14,519,343	FHLMC POOL 5.5% 01 Nov 2035	$13,960,225
18)	$1,600,000,000	JAPAN(GOVT) 1.4% 20 Jun 2012	$13,874,224
19)*	$14,577,876	FNMA POOL 5.0% 01 Sep 2035	$13,637,118
20)	$10,000,000	REP OF AUSTRIA 5.25% 04 Jan 2011	$13,527,350
21)	$10,000,000	GERMANY(FED REP) BDS 4.25% 04 Jan 2014	$13,016,657
22)	$1,500,000,000	JAPAN (GOVT OF) 0.2% 20 Jun 2008	$12,964,702
23)	$13,153,979	GS MTG SECS CORP VAR RT 25 Nov 2035	$12,776,986
24)	$13,314,322	FHLMC POOL 4.5% 01 Apr 2020	$12,571,704
25)	$12,909,611	FHLMC POOL 4.5% 01 May 2019	$12,213,186

A complete list of LASERS portfolio holdings is available upon request.

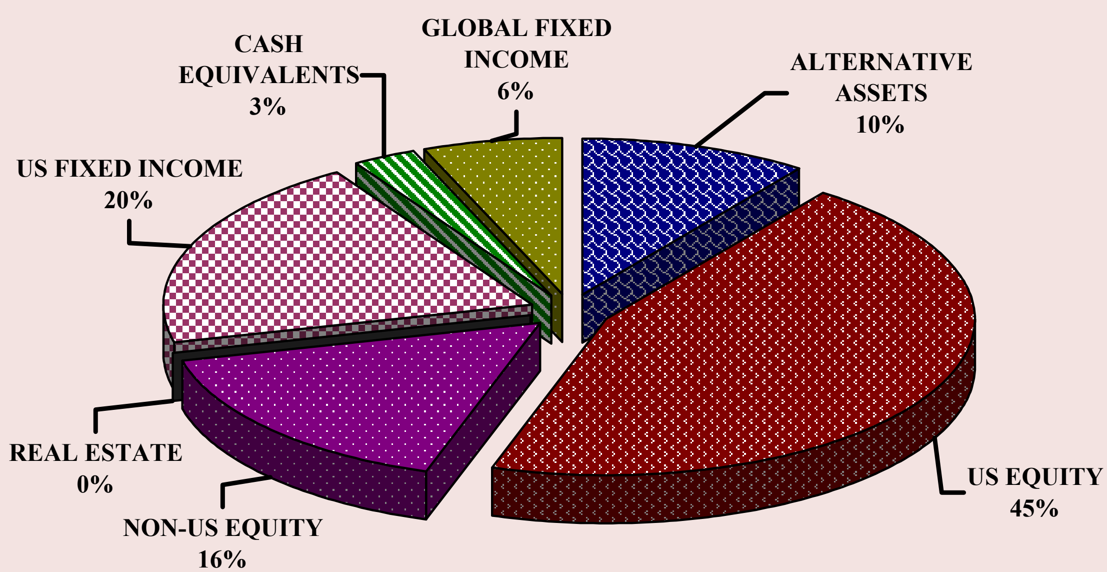
TOTAL PLAN ASSET ALLOCATION

by Major Components
June 30, 2006
$7.8 BILLION

LASERS ACTUAL ALLOCATION



LASERS TARGET ALLOCATION

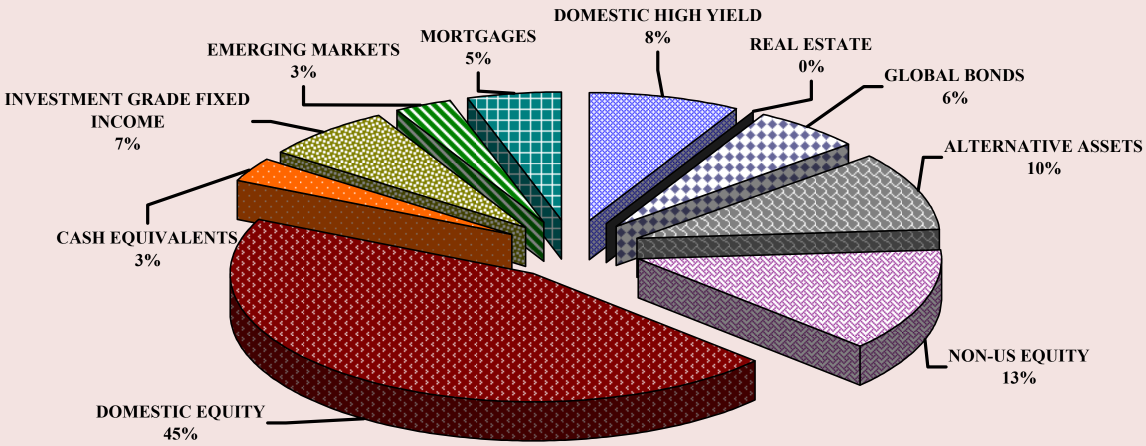


INDIVIDUAL MANAGER ALLOCATIONS

June 30, 2006

$7.8 BILLION

TARGET ALLOCATION



LASERS ACTUAL ALLOCATION BY MANAGER

MANAGER	WEIGHT	$MM
NON-US EQUITY		
INTERNATIONAL EQUITY		
MONDRIAN INV PTNRS	2.7%	207.4
ACADIAN ASSET	2.3%	179.5
BOSTON COMPANY	4.2%	326.1
TOTAL CORE INTL	9.2%	$713.0
EMERGING MARKETS		
REXITER	3.0%	238.0
TOTAL EMERGING MARKETS	3.0%	$238.0
INDEX FUNDS		
SSGA MSCI INDEX FUND	4.8%	372.0
TOTAL INDEX FUNDS	4.8%	$372.0
TOTAL NON-US EQUITY	**17.0%**	**$1,323.0**
DOMESTIC EQUITY		
SMALL CAP VALUE		
THB	1.4%	107.8
BRANDYWINE	1.2%	95.5
LSV	1.4%	108.0
SMALL CAP GROWTH		
SMITH GROUP	1.6%	126.7
RICE HALL JAMES	1.8%	138.3
TOTAL SMALL CAP	7.4%	$576.3
LARGE CAP VALUE		
ARONSON & PARTNERS	3.6%	278.8
LARGE CAP GROWTH		
GOLDMAN SACHS	2.0%	153.3
CHICAGO EQUITY PARTNERS	2.0%	158.7
TOTAL LARGE CAP	7.6%	$590.8
INDEX FUNDS		
LASERS S&P 100 INDEX FUND	2.1%	164.6
LASERS S&P 500 INDEX FUND	18.0%	1408.8
LASERS S&P 400 INDEX FUND	5.2%	406.1
LASERS S&P 600 INDEX FUND	5.9%	459.5
SSGA RUSSELL 2000 INDEX FUND	0.2%	13.3
TOTAL INDEX FUNDS	31.4%	$2,452.3
TOTAL DOMESTIC EQUITY	**46.4%**	**$3,619.4**
TOTAL EQUITY	**63.4%**	**$4,942.4**

MANAGER	WEIGHT	$MM
INVESTMENT GRADE BONDS		
LOOMIS SAYLES & CO	4.2%	326.3
ORLEANS CAPITAL MGT	2.0%	159.3
TOTAL INVESTMENT GRADE	6.2%	$485.6
MORTGAGES		
TCW	4.2%	330.7
TOTAL MORTGAGES	4.2%	$330.7
DOMESTIC HIGH YIELD		
W.R. HUFF ASSET MGT	3.6%	281.8
WELLS CAPITAL	3.6%	281.0
TOTAL DOMESTIC HIGH YLD	7.2%	$562.8
GLOBAL BONDS		
MONDRIAN INV PTNRS	6.3%	491.0
TOTAL GLOBAL BONDS	6.3%	$491.0
TOTAL FIXED INCOME	**23.9%**	**$1,870.1**
ALTERNATIVE ASSETS		
PRIVATE EQUITY		
ADAMS STREET	1.7%	150.9
HARBOURVEST	2.4%	189.6
HUFF ALTERNATIVE FUND	0.3%	21.7
JOHN HANCOCK	0.1%	5.2
PATHWAY CAPITAL MGT	0.0%	3.2
ERASMUS	0.3%	25.4
WILLIAMS CAPITAL	0.1%	4.1
PANTHEON	0.1%	5.6
QUELLOS	0.1%	7.7
TOTAL PRIVATE EQUITY	5.2%	$413.3
ABSOLUTE RETURN STRATEGIES		
K2 ADVISORS LLC	2.6%	199.3
PAAMCO	2.5%	198.9
TOTAL ABSOLUTE RETURN	5.1%	$398.2
TOTAL ALTERNATIVE ASSETS	**10.3%**	**$811.5**
TOTAL REAL ESTATE	**0.0%**	**$0.5**
TOTAL CASH EQUIVALENTS	**2.4%**	**$190.0**
TOTAL FUNDS ALLOCATED	**100.0%**	**$7,814.5**
Self-Directed Drop Funds		**$52.9**
TOTAL PLAN ASSETS		**$7,867.4**

SUMMARY OF MANAGER PERFORMANCE
RATES OF RETURN (1)
TOTAL GROSS OF FEES
(For Period Ending June 30, 2006)

	Contract Exp. Date	Mgt. Fees	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
U.S. EQUITY												
LARGE CAP GROWTH												
GOLDMAN SACHS	01/31/08	44.0 bps	$ 153.3	-1.6	-5.5	-0.7	7.0	7.0	5.2	7.3		
CHICAGO EQUITY PARTNERS	01/31/08	30.0 bps	$ 158.7	1.7	-1.7	3.3	9.3	9.3	6.1	9.5		
S&P 500 / CITIGROUP GROWTH				**-0.1**	**-3.5**	**-0.9**	**2.7**	**2.7**	**2.2**	**6.5**	**5.8**	**-1.8**
S&P 500				**0.1**	**-1.4**	**2.7**	**8.6**	**8.6**	**7.5**	**11.2**	**8.4**	**2.5**
TOTAL LARGE GROWTH		36.9 bps	$ 312.0	0.0	-3.6	1.3	8.1	8.1	5.6	8.4	6.6	1.6
LARGE CAP VALUE												
ARONSON & PARTNERS	05/14/07	30.0 bps	$ 278.8	0.8	-0.3	6.1	14.4	14.4	14.9	17.9		
S&P 500 / CITIGROUP VALUE				**0.3**	**0.6**	**6.5**	**14.9**	**14.9**	**13.0**	**16.1**	**11.0**	**6.7**
S&P 500				**0.1**	**-1.4**	**2.7**	**8.6**	**8.6**	**7.5**	**11.2**	**8.4**	**2.5**
TOTAL LARGE VALUE		30.0 bps	$ 278.8	0.8	-0.3	6.1	14.4	14.4	14.9	17.9	12.6	7.9
LARGE CAP INDEX FUNDS												
LASERS S&P 500 INDEX FUND		0.1 bps	$ 1,408.8	0.1	-1.4	2.7	8.7	8.7	7.5	11.3	8.5	2.6
S&P 500				**0.1**	**-1.4**	**2.7**	**8.6**	**8.6**	**7.5**	**11.2**	**8.4**	**2.5**
LASERS S&P 100 INDEX FUND		0.8 bps	$ 164.6	-0.1	-0.8	2.9	6.1	6.1	4.4	7.8	6.4	0.1
S&P 100				**-0.2**	**-0.8**	**2.8**	**6.1**	**6.1**	**4.5**	**7.9**	**6.4**	**0.1**
TOTAL LARGE INDEX FUNDS		0.2 bps	$ 1,573.4									
TOTAL DOMESTIC LARGE CAP		9.2 bps	$ 2,164.2	0.2	-1.5	3.0	9.1	9.1	9.1	12.3	9.0	4.3
MID CAP INDEX FUNDS												
LASERS S&P 400 INDEX FUND		0.3 bps	$ 406.1	0.0	-3.1	4.3	13.0	13.0	13.6	18.2	13.1	9.3
S&P 400				**0.0**	**-3.1**	**4.2**	**13.0**	**13.0**	**13.5**	**18.1**	**13.1**	**9.3**
TOTAL DOMESTIC MID CAP INDEX		0.3 bps	$ 406.1	0.0	-3.1	4.3	13.0	13.0	13.6	18.2	13.1	9.3
SMALL CAP GROWTH												
SMITH	10/31/10	67.9 bps	$ 126.7	-1.3	-8.4	2.5						
RICE HALL JAMES	10/31/10	55.0 bps	$ 138.3	-1.4	-3.1	5.2						
S&P 600 / CITIGROUP GROWTH				**-0.4**	**-5.1**	**5.7**	**10.5**	**10.5**	**12.9**	**19.8**	**14.3**	**10.1**
S&P 600				**0.0**	**-4.6**	**7.7**	**13.9**	**13.9**	**13.7**	**20.5**	**13.9**	**11.1**
TOTAL SMALL GROWTH		61.2 bps	$ 265.0	-1.4	-5.7	3.9	7.3	7.3	5.1	13.2	9.7	3.9
SMALL CAP VALUE												
BRANDYWINE	06/30/11	48.0 bps	$ 95.5	-0.1	-2.4	5.4	6.9	6.9	11.5	18.5	12.7	13.3
THB	06/30/11	50.0 bps	$ 107.8	0.2	-3.0	10.9	19.5	19.5	16.4	21.5	16.0	13.3
LSV	06/30/11	61.9 bps	$ 108.0	1.1	-2.2	10.3	14.3	14.3	16.4	24.2	17.7	17.8
S&P 600 / CITIGROUP VALUE				**0.4**	**-4.0**	**9.7**	**17.4**	**17.4**	**14.7**	**21.3**	**13.7**	**12.0**
S&P 600				**0.0**	**-4.6**	**7.7**	**13.9**	**13.9**	**13.7**	**20.5**	**13.9**	**11.1**
TOTAL SMALL VALUE		53.5 bps	$ 311.3	0.4	-2.5	9.0	13.6	13.6	14.8	21.5	15.7	15.1
SMALL CAP INDEX FUNDS												
SSGA RUSSELL 2000 INDEX FUND		6.4 bps	$ 13.3	0.4	-5.4	7.9	14.2	14.2	11.8	18.6	13.0	8.3
RUSSELL 2000				**0.6**	**-5.0**	**8.2**	**14.6**	**14.6**	**12.0**	**18.7**	**13.3**	**8.5**
LASERS S&P 600 INDEX FUND		0.3 bps	$ 459.5	0.0	-4.5	7.7	14.0	14.0	13.7	20.3		
S&P 600				**0.0**	**-4.6**	**7.7**	**13.9**	**13.9**	**13.7**	**20.5**	**13.9**	**11.1**
TOTAL SMALL INDEX FUNDS		0.2 bps	$ 472.8	0.0	-4.5	7.7	14.0					
TOTAL DOMESTIC SMALL CAP		31.3 bps	$ 1,049.1	**-0.2**	**-4.3**	**7.1**	**12.2**	**12.2**	**11.7**	**18.6**	**13.1**	
TOTAL U.S. EQUITY		**14.6 bps**	$ 3,619.4	0.1	-2.5	4.4	10.5	10.5	9.8	14.2	10.3	5.2

SUMMARY OF MANAGER PERFORMANCE

RATES OF RETURN [1]

TOTAL GROSS OF FEES

(For Period Ending June 30, 2006)

	Contract Exp. Date	Mgt. Fees	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
NON-U.S. EQUITY												
LARGE CAP VALUE												
MONDRIAN INVESTMENT PARTNERS	03/31/11	27.4 bps	$ 207.4	0.8	3.8	13.0	25.8	25.8	22.7	24.4	18.0	14.6
ACADIAN	03/08/11	27.8 bps	$ 179.5	0.2	1.9							
MSCI WORLD EX-US VALUE				**-0.2**	**1.4**	**11.2**	**27.9**	**27.9**	**22.5**	**27.6**	**18.9**	**12.6**
MSCI WORLD EX-US				**-0.1**	**0.9**	**10.4**	**27.4**	**27.4**	**21.1**	**24.7**	**16.5**	**10.8**
TOTAL INT'L LARGE VALUE		27.6 bps	$ 386.9	0.5	2.9	11.2	23.3	23.3	20.7	23.6	15.1	11.1
LARGE CAP GROWTH												
SSGA MSCI INDEX FUND		10.0 bps	$ 372.0	0.1	0.5	9.6	26.7	26.7				
MSCI WORLD EX-US GROWTH				**0.0**	**0.4**	**9.6**	**26.9**	**26.9**	**19.6**	**21.9**	**14.0**	**9.0**
MSCI WORLD EX-US				**-0.1**	**0.9**	**10.4**	**27.4**	**27.4**	**21.1**	**24.7**	**16.5**	**10.8**
TOTAL INT'L LARGE GROWTH		10.0 bps	$ 372.0	0.1	0.5	9.6	26.7	26.7	21.5	21.7	13.6	6.5
TOTAL INT'L LARGE CAP		19.0 bps	$ 758.9	0.3	1.7	10.4	25.0	25.0	19.9	22.5	14.2	8.7
INT'L SMALL CAP												
BOSTON COMPANY	09/30/09	80.4 bps	$ 326.1	-1.8	-0.9	14.0	40.7	40.7				
MSCI WORLD EX-US SMALL CAP				**-2.4**	**-3.4**	**7.1**	**28.7**	**28.7**	**24.7**	**32.5**	**24.3**	**19.0**
TOTAL INT'L SMALL CAP		80.4 bps	$ 326.1	-1.8	-0.1	14.8	41.6	41.6	32.5	37.2	25.7	19.3
EMERGING MARKETS												
REXITER	09/21/09	54.2 bps	$ 238.0	0.2	-4.5	5.9	35.1	35.1				
MSCI EMERGING MARKETS FREE				**-0.2**	**-4.3**	**7.3**	**35.9**	**35.9**	**35.4**	**34.8**	**27.2**	**21.5**
TOTAL EMERGING MARKETS		54.2 bps	$ 238.0	0.2	-4.5	5.9	35.1	35.1	33.3	32.0	24.5	18.2
TOTAL NON-U.S. EQUITY		**30.7 bps**	$ 1,323.0	-0.2	0.1	10.8	31.4	31.4	25.6	27.7	18.8	12.9
TOTAL EQUITY		**18.9 bps**	$ 4,942.4	0.0	-1.8	6.1	15.9	15.9	13.8	17.7	12.6	7.2
US FIXED INCOME												
INVESTMENT GRADE												
LOOMIS SAYLES & CO	12/31/09	16.5 bps	$ 326.3	0.1	0.0	-0.2	0.2	0.2	3.4	2.6	5.2	5.6
ORLEANS CAPITAL MGT	12/31/09	11.6 bps	$ 159.3	0.1	-0.2	-0.6	-0.3	-0.3	3.6	2.7	4.9	5.2
LB AGGREGATE				**0.2**	**-0.1**	**-0.7**	**-0.8**	**-0.8**	**2.9**	**2.1**	**4.1**	**5.0**
TOTAL INVESTMENT GRADE		14.9 bps	$ 485.6	0.1	-0.1	-0.3	0.0	0.0	3.5	2.7	5.1	5.5
HIGH YIELD												
W.R. HUFF ASSET MGT	06/30/07	50.0 bps	$ 281.8	-0.1	-2.0	0.1	0.4	0.4	4.8	6.5	11.0	5.7
For reference purposes only												
W.R. HUFF REG ACCOUNT^			$ 245.1	-0.6	-1.1	0.4	0.6	0.6	4.9	6.6	11.1	5.7
W.R. HUFF WORKOUT ACCOUNT			$ 36.7	2.7	-7.7							
WELLS CAPITAL	11/30/09	41.0 bps	$ 281.0	-0.3	0.3	2.8	6.1	6.1				
FIRST BOSTON HIGH YIELD				**-0.6**	**0.4**	**3.5**	**5.0**	**5.0**	**7.5**	**8.9**	**11.8**	**9.7**
TOTAL HIGH YIELD		42.2 bps	$ 562.8	-0.2	-0.9	1.4	3.1	3.1	6.2	7.1	10.7	7.2
MORTGAGE												
TCW	12/31/09	21.0 bps	$ 330.7	0.4	0.0	-0.5	0.1	0.1	3.3	3.0	3.8	5.0
LB MORTGAGE INDEX				**0.2**	**0.0**	**-0.1**	**0.4**	**0.4**	**3.2**	**2.9**	**3.6**	**4.6**
TOTAL MORTGAGE		21.0 bps	$ 330.7	0.4	0.0	-0.5	0.1	0.1	3.3	3.0	3.8	5.0
TOTAL U.S. FIXED INCOME		**27.5 bps**	$ 1,379.1	0.0	-0.4	0.4	1.3	1.3	4.6	4.5	6.8	6.3
GLOBAL FIXED INCOME												
MONDRIAN INV PTNRS	09/30/09	15.1 bps	$ 491.0	-1.1	4.1	4.1	0.5	0.5	5.2	5.8	10.3	12.6
CITIGROUP WORLD GOVT BOND				**-1.0**	**3.2**	**2.8**	**-0.4**	**-0.4**	**3.5**	**4.2**	**7.2**	**8.5**
TOTAL GLOBAL FIXED INCOME		15.1 bps	$ 491.0	-1.1	4.1	4.1	0.5	0.5	5.2	5.8	10.3	12.6
TOTAL FIXED INCOME		**24.3 bps**	$ 1,870.1	-0.3	0.6	1.2	1.1	1.1	4.8	4.8	7.4	7.2

SUMMARY OF MANAGER PERFORMANCE
RATES OF RETURN [1]
TOTAL GROSS OF FEES
(For Period Ending June 30, 2006)

	Contract Exp. Date	Mgt. Fees	MKT VAL $ (Million)	Month	3 mos	YTD	Fiscal YTD	1 Year	2 Years	3 Years	4 Years	5 Years
ALTERNATIVE ASSETS												
PRIVATE EQUITY												
ADAMS STREET NON-US	12/31/15	58.4 bps	$ 2.8	3.4	3.4	-0.5						
ADAMS STREET PARTNERSHIP 2002	12/31/12	58.4 bps	$ 8.1	4.4	4.4	15.6	31.0	31.0				
ADAMS STREET PARTNERSHIP 2005	12/31/15	58.4 bps	$ 5.3	-2.0	-2.0	-2.3	-1.4	-1.4				
ADAMS STREET PRIMARY (f)	12/31/12	58.4 bps	$ 125.6	6.0	13.9	17.7	4.1	4.1	8.6	9.9	3.1	-2.4
ADAMS STREET V - LP DIRECT	07/14/12	200.0 bps	$ 8.5		13.4	16.3	11.8	11.8	0.6			
BRINSON SECONDARY	12/31/13	58.4 bps	$ 0.6	0.0	-35.1	-34.3	-33.7	-33.7	-36.3	-26.8	-24.8	-19.4
ERASMUS	11/13/13	200.0 bps	$ 25.4		0.2	0.5	-0.4	-0.4	-1.6			
JOHN HANCOCK	open	0.0 bps	$ 5.2	2.2	2.6	5.1	57.6	57.6	56.1	42.2	24.6	12.7
HIPEP DIRECT III	12/31/07	237.5 bps	$ 2.5	-0.6	-0.6	-10.4	-12.9	-12.9	-16.5	-4.5	-1.6	-7.7
HIPEP PARTNERSHIP III	10/08/10	85.0 bps	$ 34.5	5.1	15.3	14.9	21.0	21.0	20.8	20.3	16.1	10.7
HARBOURVEST VI - BUYOUT	06/30/13	100.0 bps	$ 19.5	4.2	14.3	13.9	38.5	38.5	32.6	30.2	17.8	12.7
HARBOURVEST VI - DIRECT	06/30/09	250.0 bps	$ 15.5		12.1	34.1	45.6	45.6	8.9	16.8	4.8	-1.6
HARBOURVEST VI - PTNR	06/30/13	100.0 bps	$ 83.8	6.5	6.7	6.2	16.8	16.8	12.2	9.3	-0.2	-6.3
HIPEP DIRECT IV	12/31/10	250.0 bps	$ 9.0		5.2	20.8	20.3	20.3	22.9	14.7	7.4	
HIPEP PARTNERSHIP IV	12/31/14	100.0 bps	$ 24.9	5.3	14.1	13.5	33.5	33.5	23.0	19.7	9.5	
HUFF ALTERNATIVE FUND	01/11/01	100.0 bps	$ 21.7	-8.0	44.6	44.6	45.9	45.9	22.6	39.8	21.3	16.7
PANTHEON	07/12/18	65.0 bps	$ 5.6			-3.7						
PATHWAY CAPITAL MGT	open	0.0 bps	$ 3.2		1.4	-0.2	34.5	34.5	19.5	27.5	17.4	12.4
QUELLOS	07/12/17	56.0 bps	$ 7.7	-0.5	-0.5	-3.1						
WILLIAMS CAPITAL	01/19/14	175.0 bps	$ 4.1	0.0	0.0	0.0	0.0	0.0				
TOTAL PRIVATE EQUITY		**167.3 bps**	**$ 413.3**	**3.9**	**11.6**	**13.8**	**22.3**	**22.3**	**16.0**	**16.3**	**7.7**	**1.2**
ABSOLUTE RETURN STRATEGIES												
PAAMCO		100.0 bps	$ 198.9	-0.1	0.7	5.6	11.5	11.5	7.1			
K2 ADVISORS LLC		125.0 bps	$ 199.3	-0.7	-0.7	2.8	7.8	7.8	7.7			
HFRI FUND OF FUNDS COMPOSITE				**-0.6**	**-0.5**	**3.9**	**10.0**	**10.0**	**8.3**	**8.1**	**7.8**	**6.7**
ABSOLUTE RETURN STRATEGIES		112.5 bps	$ 398.2	-0.4	0.0	4.0	9.0	9.0	6.8	6.3	5.2	4.4
REAL ESTATE												
EQUITY REAL ESTATE												
REAL ESTATE INVESTMENT POOL			$ 0.5	0.2	29.4	28.0	40.1	40.1	30.8	29.8	26.3	19.2
***NCREIF CUSTOM PROPERTY**				**3.6**	**3.6**	**9.2**	**20.2**	**20.2**	**17.8**	**15.1**	**13.0**	**11.7**
TOTAL REAL ESTATE		**117.0 bps**	$ 0.5	0.2	29.4	28.0	40.1	40.1	30.8	29.8	26.3	19.2
TOTAL ALTERNATIVE ASSETS		**140.4 bps**	$ 812.0	1.7	5.6	8.7	15.5	15.5	11.2	11.6	5.3	0.4
(f) Adams Street Primary consists of nine limited partnerships												
CASH EQUIVALENTS												
HOLDING ACCOUNT			$ 190.0	0.5	1.6	3.0	6.0	6.0	4.0	3.4	3.7	3.5
182 DAY T-BILL				**0.3**	**1.1**	**2.1**	**3.9**	**3.9**	**3.0**	**2.3**	**2.2**	**2.4**
TOTAL CASH EQUIVALENTS		**15.0 bps**	$ 190.0	0.5	1.6	3.0	6.0	6.0	4.0	3.4	3.7	3.5
TOTAL PLAN												
FINANCIAL COMPOSITE		**19.8 bps**	$ 7,026.6	-0.1	-1.0	4.8	11.5	11.5	11.0	13.5	11.3	7.9
FINANCIAL ALLOCATION INDEX				-0.2	-1.3	4.5	11.2	11.2	10.9	13.5	11.1	7.9
FINANCIAL POLICY INDEX				-0.2	-1.1	4.3	10.8	10.8	10.6	13.2	11.1	8.0
TOTAL PLAN [2]		**32.4 bps**	$ 7,814.5	**0.1**	**-0.4**	**5.2**	**11.9**	**11.9**	**11.0**	**13.3**	**11.0**	**7.4**
TOTAL PLAN ALLOCATION INDEX				0.0	-0.6	4.9	11.7	11.7	10.9	13.4	10.8	7.6
TOTAL PLAN POLICY INDEX				0.0	-0.5	4.8	11.4	11.4	10.6	13.1	10.7	6.8

	6 Years	7 Years	8 Years	9 Years	10 Years
LONG TERM RETURNS FOR TOTAL PLAN	5.0	5.9	6.3	6.9	8.0

^Huff Workout Account was separated from Huff Reg Account March 1, 2006.
*Returns available one quarter in arrears on a quarterly basis.

[1] LASERS calculates performance using the "time-weighted" rate of return methodolpgy in accordance with CFA Institute GIPS performanc presentation standards.

[2] This amount does not include Self-Directed Plan and Optional Retirement Plan funds of $49.0 million and $3.9 million, respectively.

SCHEDULE OF BROKERAGE COMMISSIONS PAID
June 30, 2006

Brokerage Firm	Commission
Credit Suisse	$ 163,176
Hibernia Southcoast Capital Inc.	90,165
Merrill Lynch	82,407
Investment Technology Group Inc.	81,419
BNY Brokerage Inc.	69,309
Citigroup	64,878
Instinet	64,220
Johnson Rice & Co.	63,845
La Branche	56,715
Bear Stearns	48,172
Goldman Sachs	43,466
Salomon Bros. Intl.	42,668
Sisk Investment Co.	40,887
Liquidnet Inc.	37,645
Jones & Associates Inc.	36,497
Nomura	35,974
Morgan Stanley	35,925
B Trade Services LLC	35,326
Cantor Fitzgerald & Co.	33,364
Lehman Bros.	32,586
Deutsche Bank	29,712
Pritchard Capital Partners	28,817
Tullett Liberty	24,703
Capital Institutional Services	23,909
Baird, Robert W & Co.	23,695
Knight Securities Broadcort	22,655
Wachovia Capital	21,202
Jefferies & Co.	19,011
Raymond James	16,548
Mogavceo Lee & Co.	16,392
Griswold Company	15,834
National Financial Services Corp.	15,740
Guzman & Co.	15,058
JMP Securities	14,345
CIBC World Markets Corp.	13,933
Stephens Inc.	13,455
UBS Equities	13,177
JP Morgan	12,973
Neuberger & Berman	12,912
Weeden & Co.	12,625
Bank of America	12,505
Sanford Bernstein	12,286
Thomas Weisel Partners	12,214
Merriman Curhan Ford & Co.	11,658
Rosenblatt Securities	11,612
Friedman Billings	11,495
McDonald & Co.	10,641
King & Associates	10,067
Piper Jaffray	9,984
Westdeutsche Landesbank	9,962
All Others	309,797
Total	$ 1,947,561

SCHEDULE OF FEES
(by Investment Manager Classification[1])
For Year Ended June 30, 2006

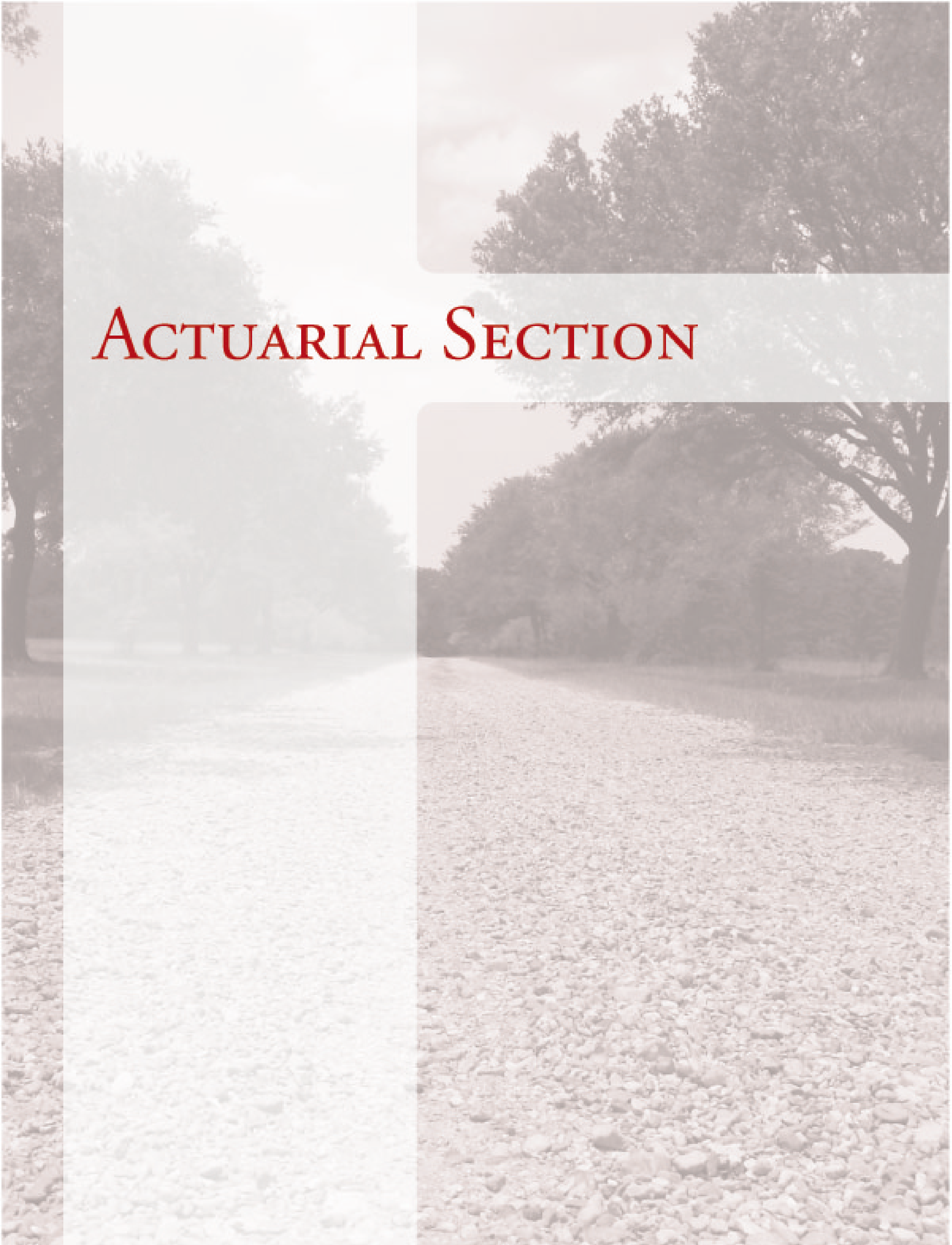
Investment Manager Type	Assets Under Management (in millions)	Annual Fees (in dollars)
Fixed Income Managers		
U.S. Fixed Income	$ 1,420,234,735	$ 3,703,140
Global Fixed Income	490,963,196	644,238
Total Fixed Income	**1,911,197,931**	**4,347,378**
Equity		
U.S. Equity - External Managers	1,192,273,385	5,074,923
U.S. Equity - Internal Managers	2,438,942,738 [2]	-
Global Equity	1,322,994,521	5,750,647
Total Equity	**4,954,210,644**	**10,825,570**
Real Estate	**246,244**	**16,267**
Alternative Investments	**811,697,419**	**13,253,021**
Cash	**190,006,933**	**427,395**
Consulting Fees	**-**	**-**
Total	**$ 7,867,359,171**	**$ 28,869,631**

NOTES:

[1]Financial Statements are prepared on the basis of security class. As specified in Manager Guidelines, at any given point in time, a money manager may have securities not specifically within their defined investment manager type due to market conditions.

[2]Internally managed funds lower investment management fees and reduce the volatility of actual portfolio returns relative to benchmark returns.

Actuarial Section



Charles G. Hall
F.C.A., M.A.A.A., A.S.A.
Enrolled Actuary

1624 LaSalle Parc Drive
Baton Rouge, La. 70806
(225) 928-7866

September 8, 2006

Board of Trustees
LA STATE EMPLOYEES' RETIREMENT SYSTEM
Post Office Box 44213
Baton Rouge, Louisiana 70804-4213

Ladies and Gentlemen:

Pursuant to your request, I have completed the annual actuarial valuation for the Louisiana State Employees' Retirement System as of June 30, 2006. The valuation was prepared relying on the data submitted by the Retirement System, the actuarial assumptions adopted by the Board of Trustees, and reflects the current benefit structure on the valuation date.

Notable changes in recent prior legislative sessions include the following Acts: Act 75 of 2005 changes retirement eligibility to 10 years at age 60, Final Average Compensation to 60 months and increases employee contributions .5% for new hires in the regular plan after June 30, 2006. Act 588 of 2004 made significant changes to prospective funding. The outstanding balances of changes in liabilities from 1993 – 1998 were re-amortized as a level dollar amount to 2029. The amortization periods for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. A minimum employer rate of 15.5% and Employer Credit Account were established for excess contributions. The negative Experience Account Balance was removed from the valuation assets. Act 572 of 1992 established the Experience Account which provides for the pre-funding of retiree COLAs by accumulating 50% of the excess investment income. The Initial Unfunded Actuarial Liability Fund was established July 1, 1995 to dedicate allocated assets to reduce the initial unfunded actuarial liability established by Act 81.

The funding objective of the Retirement System was established by Constitutional Amendment Number 3 during the 1987 Legislative Session and requires the following:

a) fully fund all current normal costs determined in accordance with the prescribed statutory funding method; and

b) liquidate the unfunded liability as of June 30, 1988 over a forty year period with subsequent changes in unfunded liabilities amortized over period(s) specified by statute.

The results of the current valuation indicate that the employer contribution rate for the fiscal year commencing July 1, 2006 should have been set at 20.0% of payroll.

When compared to the 18.9% projected rate set by the Public Retirement Systems' Actuarial Committee, the current rate of 20.0% reflects a increase resulting from a back-loaded, increasing payment amortization schedule for the initial unfunded liability. The current employer contribution rate, together with the contributions payable by the members, is sufficient to achieve the funding objective set forth above.

Board of Trustees
LASERS
September 8, 2006

The methodology for determining the actuarial value of assets was adopted by the Board of Trustees effective July 1, 1999. The method values all assets at market value, adjusted for a four-year weighted average of the incremental change between market value and cost value. The objective of this asset valuation method is to smooth the volatility which might otherwise occur due to market conditions on the measurement date. The Actuarial Value of Assets for the fiscal year ending on June 30, 2006 is $7,602,689,484. The Actuarial Value of Assets, when adjusted for the Experience Account Fund in the amount of $171,905,146 and the Initial UAL Fund of $46,647,816 yields assets for funding purposes of $7,384,136,522.

In performing the June 30, 2006 valuation, I have relied upon the employee data and financial information provided by the administrative staff of the Louisiana State Employees' Retirement System. Participant data was edited for reasonableness, and consistency to prior plan year data. However, the validity of the information submitted was not compared to actual source documents. Plan assets were reviewed for consistency and balance tested with information furnished from the prior year's valuation.

The present values shown in the June 30, 2006 actuarial valuation and supporting statistical schedules of this certification, which have been reformatted and comprise all the schedules of the Actuarial Section in the annual Financial Statement, have been prepared in accordance with the actuarial methods specified in Louisiana Revised Statutes Title II Section 22(6) and assumptions which are appropriate for the purposes of this valuation.

The funding method prescribed is the Projected Unit Credit Cost Method. The actuarial assumptions and methods used for funding purposes comply and are within the parameters set forth by the Government Accounting Standards Board (GASB) Statement No. 25. The same actuarial assumptions and methods were employed in the development of the Trend Data Schedule, the Schedule of Funding Progress and the Schedule of Employer Contributions, which were prepared for the Financial Section of this report. The System is required to conduct an experience study every five years. The most recent study covers the five-year observation period of 1997-2001.

I certify to the best of my knowledge, the methods and assumptions comply with generally recognized and accepted actuarial principals and practices set forth by the American Academy of Actuaries, are reasonable in the aggregate and when applied in combination represent my best estimate of the funding requirement to achieve the Retirement System's Funding Objective.

Respectfully submitted,

Charles G. Hall

Charles G. Hall, FCA, MAAA, ASA
Consulting Actuary

SUMMARY OF ASSUMPTIONS

The following assumptions were adopted by the Board of Trustees of The Louisiana State Employees' Retirement System of Louisiana (LASERS) based on the most recent 1997-2001 actuarial experience study.

I. GENERAL ACTUARIAL METHOD

Actuarial Funding Method (Projected Unit Credit): The unfunded accrued liability on June 30, 1988 is amortized over a forty-year period commencing in 1989. The amortization payment reflects a 4% increase for the first five years, reducing by .5% at the end of each quinquennial period. Changes in unfunded accrued liabilities occurring after June 30, 1988 are amortized as a level dollar amount as follows:

	Act 81 Effective 6/30/88	As Amended Act 257 Effective 6/30/92
Experience Gains/Losses	15 years	Later of 2029 or 15 years
Actuarial Assumptions	30 years	Later of 2029 or 30 years
Actuarial Methods	30 years	Later of 2029 or 30 years
Benefit Changes	Determined by enabling statute	

Act 257 of 1992 further amended the amortization schedule to reflect a 4.5% payment increase over the remaining amortization period.

Act 588 of 2004 re-amortized changes in liabilities occurring from 1993 thru 1998 as a level dollar payment to 2029. Amortization periods for changes in liabilities beginning with 1999 were extended to a thirty-year period from the date of occurrence. Amortization periods for changes in liabilities beginning with 2004 are extended to a thirty-year period from the date of occurrence, paid as a level dollar amount.

Employer contribution requirements for normal costs and amortization of the unfunded accrued liabilities are determined as a percentage of pay roll. A discrepancy between dollars generated by % of payroll versus the required dollar amount is treated as a shortfall credit/debit and applied to the following year's contribution requirement.

Asset Valuation Method: Assets are valued on a basis, which reflects a four-year moving weighted average value between market value and cost value. Prior to July 1, 1999, fixed income securities were valued at amortized cost.

Valuation Data: The administrative staff of LASERS furnishes the actuary with demographic data relating to the active life membership and retired life members. Retired life members included inactive members who are entitled to a deferred reciprocal or vested benefit. The administrative staff of LASERS provides the book value and market value of system assets. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.

II. ECONOMIC ASSUMPTIONS

Investment Return: 8.25% per annum, compounded annually.

Employee Salary Increases: Incorporated in the following salary scales is an explicit 4.25% portion attributable to the effects of salaries, based upon years of service:

Regular State Employees - range	4.25% - 14.00%
Judges and Legislators - range	2.50% - 4.70%
Department of Corrections – range	4.00% - 14.00%
Wildlife and Fisheries – range	6.50% - 18.00%

Duration (Years)	State Employees	Judges	Corrections	Wildlife
1	14.00%	4.70%	18.00%	18.00%
5	6.50%	2.50%	8.00%	8.00%
15	5.50%	2.50%	7.50%	6.50%
10	5.00%	2.50%	6.00%	6.50%
20	4.50%	2.50%	6.00%	6.50%
25	4.25%	2.50%	6.00%	6.50%
30	4.25%	2.50%	4.00%	6.50%

The active member population is assumed to remain constant.

III. DECREMENT ASSUMPTIONS

Mortality Assumption: Pre-retirement deaths and post-retirement life expectancies are projected in accordance with the experience of the 1983 Sex Distinct Graduated Group Annuity Mortality Table, with female ages set at attained age plus one.

Disability Assumption: Rates of total and permanent disability were projected by age in accordance with the 1997-2001 disability experience of the Retirement System. Rates are illustrated by employment classification. Mortality after disability is based on the Eleventh Actuarial Valuation of the Railroad Retirement System for permanent disabilities.

Age (Years)	State Employees	Judges	Corrections	Wildlife
25	0.00%	0.00%	0.00%	0.00%
30	0.01%	0.02%	0.02%	0.01%
35	0.03%	0.02%	0.05%	1.00%
40	0.15%	0.02%	0.13%	1.00%
45	0.27%	0.02%	0.17%	1.00%
50	0.37%	0.02%	0.54%	0.00%
55	0.44%	0.02%	0.04%	0.00%

Termination Assumptions: Voluntary withdrawal rates are derived from the 1997-2001 termination experience study.

Age (Years)	State Employees	Judges	Corrections	Wildlife
25	16%	0.00%	22%	7%
30	12%	0.50%	15%	7%
35	9%	0.50%	10%	2%
40	5%	0.50%	6%	1%
45	3%	0.50%	4%	1%
50	3%	0.50%	3%	1%

Furthermore, for members terminating with ten (10) or more years of service, it is assumed that 80% will not withdraw their accumulated employee contributions.

Retirement/DROP Assumptions: Retirement rates and DROP probabilities were projected based upon the 1997-2001 experience study.

Age	State Employees		Judges		Corrections		Wildlife	
(Years)	RET	DROP	RET	DROP	RET	DROP	RET	DROP
50	35%	33%	50%	0%	70%	90%	50%	50%
51	37%	33%	50%	0%	70%	50%	50%	50%
52	40%	33%	50%	90%	70%	50%	50%	50%
53	45%	33%	35%	90%	70%	45%	50%	50%
54	35%	33%	35%	90%	90%	10%	50%	50%
55	35%	33%	35%	90%	75%	55%	50%	50%
56	35%	25%	35%	50%	75%	40%	50%	50%
57	45%	20%	10%	50%	75%	15%	50%	50%
58	60%	20%	10%	50%	75%	15%	50%	50%
59	47%	25%	10%	15%	45%	15%	50%	50%
60	26%	25%	10%	15%	25%	25%	50%	50%
61	26%	15%	10%	15%	25%	25%	50%	50%
62	33%	15%	10%	15%	25%	5%	50%	50%
63	40%	15%	10%	90%	35%	5%	50%	50%
64	36%	15%	10%	75%	35%	5%	50%	50%
65	36%	15%	10%	33%	35%	5%	99%	0%
66	33%	15%	10%	15%	35%	5%	99%	0%
67	30%	25%	10%	15%	30%	15%	99%	0%
68	30%	30%	10%	15%	50%	0%	99%	0%
69	30%	10%	62%	0%	50%	0%	99%	0%
70	25%	10%	99%	0%	99%	0%	99%	0%

ACTUARIAL VALUATION BALANCE SHEET
June 30, 2006 and 2005

	2006	2005
Assets		
Present Assets Creditable To:		
Members' Savings Account	$ 1,290,298,067	$ 1,318,810,724
Annuity Reserve Account	7,109,833,923	6,322,647,534
Total Present Assets	**8,400,131,990**	**7,641,458,258**
Present Value Of Prospective Contributions Payable To:		
Members' Savings Account	1,165,883,794	1,265,050,880
Annuity Reserve Account		
Normal	1,252,022,067	1,343,589,106
Accrued Liability	3,122,453,205	3,194,609,743
Total Prospective Contributions	**5,540,359,066**	**5,803,249,729**
Total Assets	**$ 13,940,491,056**	**$ 13,444,707,987**
Liabilities		
Present Value Of Prospective Benefits Payable On Account Of:		
Current Retiree Members	$ 6,900,149,887	$ 6,196,357,044
Current Active Members	6,830,657,133	7,122,060,453
Deferred Vested & Reciprocal Members	209,684,036	126,290,490
Total Liabilities	**$ 13,940,491,056**	**$ 13,444,707,987**

SUMMARY OF UNFUNDED ACTUARIAL LIABILITIES/SALARY TEST
(Dollar Amounts in Millions)

Valuation Date	(1) Active Member Contribution	(2) Retirees Term. Vested Inactive	(3) Active Members Employer Fin. Portion	Actuarial Valuation Assets	Portion of Actuarial (1)	(2)	(3)
1997	938.2	2,862.4	2,688.8	4,537.9	100%	97%	0%
1998	1,008.5	3,678.4	2,261.1	5,067.8	100%	100%	8%
1999	1,067.5	4,020.1	2,495.0	5,574.9	100%	100%	19%
2000	1,079.2	4,567.2	2,610.9	6,171.0	100%	100%	20%
2001	1,088.5	4,887.8	2,676.3	6,418.3	100%	100%	17%
2002	1,116.7	5,306.0	2,784.1	6,460.6	100%	100%	1%
2003	1,156.3	5,257.8	3,007.8	6,487.5	100%	100%	2%
2004	1,217.0	5,961.6	2,959.0	6,097.8	100%	82%	0%
2005	1,318.8	6,322.6	3,205.6	6,778.8	100%	85%	0%
2006	1,290.3	7,109.8	3,148.5	7,602.6	100%	83%	0%

SUMMARY OF ACTUARIAL AND UNFUNDED ACTUARIAL LIABILITIES
(Dollar Amounts in Millions)

Valuation Date	Actuarial Accrued Liabilities	Actuarial Valuation Assets	Ratio Of Assets To AAL	Unfunded AAL	Active Member Payroll	Unfunded AAL As A Percent of Active Payroll
1997	6,489.3	4,537.9	69.9	1,951.4	1,607.4	121.5
1998	6,953.0	5,067.8	72.9	1,885.3	1,653.8	114.0
1999	7,582.8	5,574.9	73.5	2,007.8	1,736.9	115.6
2000	8,257.3	6,170.9	74.7	2,086.3	1,820.1	114.6
2001	8,652.6	6,418.3	74.2	2,234.3	1,782.8	125.3
2002	9,206.7	6,460.6	70.2	2,746.1	1,861.9	147.5
2003	9,796.3	6,487.5	66.2	3,308.8	1,924.6	172.0
2004	10,237.6	6,097.8	59.6	4,139.8	2,017.7	205.2
2005	10,847.1	6,673.5	61.5	4,173.6	2,100.0	198.7
2006	11,548.7	7,430.8	64.3	4,117.9	1,979.7	208.0

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
(Dollar Amounts in Thousands)

	Fiscal Year Ending			
	2006	**2005**	**2004**	**2003**
Unfunded Actuarial Liability at Beginning of Fiscal Year (7/1)	**$ 4,202,816**	**$ 4,165,942**	**$ 3,333,456**	**$ 2,864,319**
Interest on Unfunded Liability	346,732	343,690	275,010	236,306
Investment Experience (gains) decreases UAL	(311,664)	(210,578)	126,485	746,839
Plan Experience (gains) decreases UAL	(2,452)	44,664	(52,973)	90,852
Employer Amortization Payments (payments) decreases UAL	(257,816)	(249,643)	(219,989)	(180,522)
Employer Contribution Variance (excess contributions) decreases UAL	29,394	3,452	17,093	16,740
Experience Account Allocation (allocations) decreases UAL	155,832	105,289	-	(373,419)
Other - Miscellaneous gains and losses from transfers or Acts of the Legislature	1,702	-	686,860	(67,659)
Unfunded Actuarial Liability at End of Fiscal Year (6/30)	**$ 4,164,544**	**$ 4,202,816**	**$ 4,165,942**	**$ 3,333,456**

AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
June 30, 2006

Date	Description	Amtz. Method	Amtz. Period	Initial Liability	Years Remain	Remaining Balance	Mid-Year Payment
1993	Initial Liability	I	36	$ 2,086,424,058	23	$ 2,857,131,226	$ 185,366,954
1993	Change in Liability	L	25	(176,172,713)	23	(171,334,550)	(16,202,391)
1994	Change in Liability	L	25	(62,475,258)	23	(60,759,524)	(5,745,774)
1995	Change in Liability	L	25	(72,078,533)	23	(70,099,068)	(6,628,975)
1996	Change in Liability	L	25	85,912,731	23	83,553,343	7,901,290
1997	Change in Liability	L	25	(281,911,688)	23	(274,169,657)	(25,927,077)
1998	Change in Liability	L	25	(105,825,000)	23	(102,918,769)	(9,732,597)
1999	Change in Liability	I	25	103,608,120	23	107,298,060	6,961,358
2000	Change in Liability	I	26	46,867,925	24	48,689,707	3,073,735
2001	Change in Liability	I	27	109,177,843	25	113,749,068	6,998,669
2002	Change in Liability	I	28	468,578,945	26	489,495,839	29,397,278
2003	Change in Liability	I	29	1,142,857,936	27	1,196,804,017	70,254,058
2004	Change in Liability	L	30	113,159,407	28	111,172,626	9,889,817
2005	Change in Liability	L	30	(60,625,273)	29	(60,114,147)	(5,298,480)
2006	Change in Liability	L	30	(156,583,505)	30	(156,583,505)	(13,684,962)
	Total Outstanding Balance					**$ 4,111,914,666**	**$ 236,622,903**
Employers Credit Balance							
2002	Contribution Variar	L	5	$ 779,882	1	$ 1,811,896	$ 1,885,156
2003	Contribution Variar	L	5	16,739,921	2	7,500,165	4,056,278
2004	Contribution Variar	L	5	17,093,381	3	11,055,818	4,141,925
2005	Contribution Variar	L	5	3,452,173	4	2,866,654	836,502
2006	Contribution Variar	L	5	29,394,615	5	29,394,615	7,122,657
	Total Credit Balance					**$ 52,629,148**	**$ 18,042,518**
	Total Unfunded Actuarial Accrued Liability					**$ 4,164,543,814**	

MEMBERSHIP DATA

Data regarding the membership of the System for valuation were furnished by the System.

	2006		2005	
Active Members	**Census***	**Avg. Sal.**	**Census***	**Avg. Sal.**
Regular Members	50,463	$ 33,569	56,479	$ 32,121
Legislators	49	49,354	49	41,772
Judges	315	101,928	325	99,497
Wildlife Agents	221	45,145	218	44,786
Corrections	4,760	28,745	5,245	27,358
Active After DROP	2,003	22,852	1,852	45,938
Total	**57,811**	**$ 33,231**	**64,168**	**$ 32,522**

* Census total represents total membership counts excluding errors for insufficient salary data.

Valuation Salaries	$1,979,705,391	$2,100,043,094

	2005	2004
Inactive Members	**Census**	**Census**
Due Refunds	43,382	34,379
Vested & Reciprocals	2,492	1,486

	2006		2005	
Annuitants and Survivors	**Census**	**Avg. Sal.**	**Census**	**Avg. Sal.**
Retirees	28,944	$ 17,627	27,646	$ 16,857
Disabilities	1,202	12,098	1,199	11,658
Survivors	5,409	11,321	5,360	11,278
DROP	2,577	26,622	2,810	24,668
Total	**38,132**	**$ 17,166**	**37,015**	**$ 16,474**

HISTORICAL MEMBERSHIP DATA
(Dollar Amounts in Thousands)

HISTORY OF ACTIVE MEMBERSHIP DATA FOR LAST 10 YEARS

Year Ended 6/30	Number of Active Members	Percentage Change In Membership	Annual Active Member Payroll	Annual Active Member Average Payroll	Percentage Change In Payroll
1997	69,444	-0.34%	1,607,371	23,091	1.4%
1998	69,949	0.73%	1,653,863	23,572	2.9%
1999	67,680	-3.24%	1,736,963	25,278	5.0%
2000	66,642	-1.53%	1,820,132	27,139	4.8%
2001	64,519	-3.19%	1,782,884	27,400	-2.0%
2002	64,692	0.27%	1,861,887	28,612	4.4%
2003	65,441	1.01%	1,924,680	29,479	3.4%
2004	64,149	-1.97%	2,017,726	31,451	4.8%
2005	64,168	0.03%	2,100,043	32,522	4.1%
2006	57,811	-9.91%	1,979,705	33,231	-5.7%

HISTORY OF ANNUITANTS AND SURVIVOR ANNUITANT MEMBERSHIP FOR LAST 10 YEARS

Year Ending 6/30	Total Members		Members Added		Members Removed		Average Annuity	Percent Change in Annuity
	No.	Amount	No.	Amount	No.	Amount		
1997	31,358	378,125	2,153	34,951	1,145	9,695	12,058	3.7%
1998	31,092	399,889	2,040	30,192	1,212	8,428	12,861	6.7%
1999	31,599	423,046	1,515	32,512	1,008	9,355	13,388	4.1%
2000	32,618	454,356	2,629	42,466	1,608	11,156	13,930	4.0%
2001	33,357	486,712	2,582	47,162	1,843	14,806	14,591	4.7%
2002	34,522	524,748	2,959	56,237	1,794	18,201	15,200	4.2%
2003	35,525	555,503	2,789	56,647	1,786	25,892	15,637	2.9%
2004	36,291	582,121	2,613	55,655	1,847	29,037	16,040	2.6%
2005	37,015	609,764	2,775	61,985	2,051	34,342	16,473	2.7%
2006	38,132	654,574	3,096	77,503	1,979	32,693	17,166	10.4%

PRINCIPLE PROVISIONS OF THE PLAN

The Louisiana State Employees' Retirement System (LASERS) was enacted in 1950. Initially, the plan covered regular State Employees (Regular Plan), but membership has expanded to participating agencies, and the merger of Louisiana State University Administration Employees and the Judges Retirement System.

The purpose of the plan is to provide benefits to members and their dependents at retirement or in the event of death, disability or termination of employment. LASERS is a defined benefit plan and is funded on an actuarial reserve basis to fund benefits as prescribed by law.

ADMINISTRATION

The plan is governed by Title 11 Sections 401-699 of the Louisiana Revised Statutes. The Board of Trustees is composed of twelve members; six elected from the active membership, three elected retired members, and three ex officio members. Elected members serve staggered four-year terms. The Treasurer, Chairman of the House Retirement Committee, and the Chairman of the Senate Retirement Committee serve as voting, ex-officio members.

The Board of Trustees appoints an Executive Director who is responsible for the operation of the system. The Board also retains other consultants as deemed necessary. Administrative expenses are paid entirely from investment earnings.

MEMBER CONTRIBUTIONS

Members contribute a percentage of their gross compensation, depending on plan participation:

Individual Employees	7.0% of Compensation	7.5% Effective 7/1/1989
Agents of DOC	8.5% of Compensation	9%, 7.5% after DROP
Wildlife Agents	8.0% of Compensation	8.5%, 9.5% Effective 7/1/2003
Legislators, Judges	11.0% of Compensation	11.5% Effective 7/1/1989
Peace Officers	7.5% of Compensation	9.0% Effective 7/1/2006

Member contributions have been tax-deferred for federal income tax purposes since January 1, 1990. Therefore, contributions after the effective date are not considered as income for federal income tax purposes until withdrawn through refund or through payment of benefits.

EMPLOYER CONTRIBUTIONS

All participating employers, regardless of plan participation, contribute a percentage of their total gross payroll to the system. The employer percentage is actuarially determined and is sufficient to pay annual accruals plus an amortization charge which liquidates the system's unfunded liability as required by law. The rate is determined annually and recommended by the Public Retirement System's Actuarial Committee to the State Legislature.

TERMINATION

A member who terminates covered employment, regardless of plan membership, may request a refund of the member's contributions without interest. Upon re-employment, a member may reinstate the credit forfeited through termination of previous membership by repaying the refunded contributions plus interest. A member who terminates covered employment with 10 years of service may, in lieu of a refund of contributions, elect to receive a monthly annuity upon attainment of age 60.

RETIREMENT BENEFITS

Service retirement benefits are payable to members who have terminated covered employment and met both age and service eligibility requirements.

Normal Retirement

Regular Plan - A member may retire with a 2.5% annual accrual rate, 3.33% for peace officers, at age 55 with 25 years, age 60 with 10 years or at any age with 30 years of service.

Note: Members may retire with a 2.5% annual accrual rate at any age with 20 years or age 50 with 10 years of service with benefits actuarially reduced.

Correction Officers - A member may retire with a 2.5% annual accrual rate at age 50 with 20 years or 20 years of service regardless of age if employed prior to August 15, 1986. Effective January 1, 2002, new members accrue 3.33% per year and are eligible for retirement at 25 years of service regardless of age.

Judges - A member may retire with a 3.5% annual accrual rate with 18 years, age 55 with 12 years, age 50 with 20 years (minimum 12 years judicial), age 65 with 10 years of service, or 70 without regards to creditable service.

Legislators, Governor, Lieutenant Governor and State Treasurer - May retire with a 3.5% annual accrual rate with 16 years of legislative service; age 50 with 20 years (minimum 12 years legislative service) or age 55 with 12 years.

Benefit Formula

For all plans, monthly retirement benefits are based on a formula, which multiplies the final average compensation, for the highest successive thirty-six months, by the applicable accrual rate, and by the years of creditable service, plus a $25 per month supplemental benefit for members hired prior to July 1, 1986.

Payment Options

A retiring member is entitled to receive the maximum benefit payable until member's death. In lieu of the maximum benefit, the member may elect to receive a reduced benefit payable in the form of a Joint and Survivor Option, or a reduced benefit with a lump sum payment which cannot exceed 36 monthly benefit payments.

Judges receive the maximum benefit payable without reduction for a 100% Joint and Survivor Option.

DEFERRED RETIREMENT OPTION PROGRAM (DROP)

In lieu of terminating employment and accepting a service retirement, an eligible member may begin participation on the first retirement eligibility date or within 60 days thereafter, for a period not to exceed 36 months. Delayed participation reduces the three-year participation period. During participation, benefits otherwise payable are fixed, and deposited in an individual DROP account.

Upon termination of DROP, the member may continue employment and earn additional accruals to be added to the fixed pre-DROP benefit.

Upon termination of employment, the member is entitled to the fixed benefit plus post-DROP accruals, plus the individual DROP account balance, which can be paid in a lump sum, or an additional annuity based upon the account balance.

DISABILITY RETIREMENT BENEFITS

Active members with ten or more years of service credit are eligible for disability retirement benefits if determined to be disabled from performing the duties of their job.

Regular Plan - A service retirement benefit at 2.5% per year of service of average compensation, 3.33% for peace officers.

Judges - A service retirement benefit, but not less than 50% of current salary.

Wildlife Agents - A service retirement benefit of the Regular Plan. Total disability in-line-of-duty service not less than 60% average compensation.

SURVIVOR BENEFITS

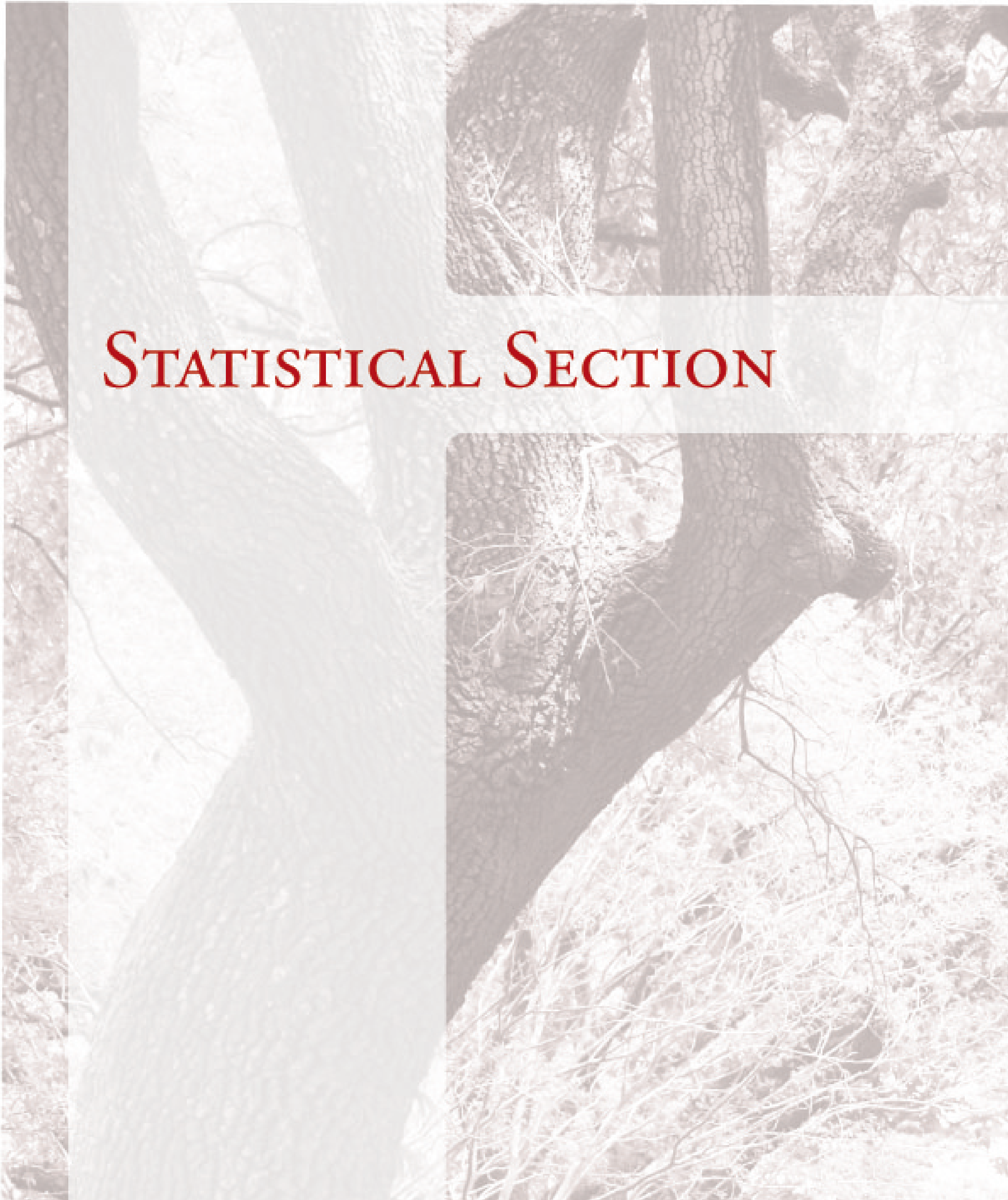
A surviving spouse with minor children of an active member with 5 years of creditable service (2 years immediately prior to death) or 20 years of creditable service is entitled to a benefit equal to the greater of (a) $300 per month, or (b) 75% of the member's benefit calculated at the 2 1/2% accrual rate for all creditable service.

Surviving minor child, with no surviving spouse shall receive an amount equal to the greater of 75% of compensation or $300. Benefits to minors cease at attainment of age 18, marriage or age 23 if enrolled in an approved institution of higher education.

A surviving spouse without minor children of an active member with 10 years of creditable service (2 years immediately prior to death) or 20 years of creditable service is entitled to a benefit equal to the greater of (a) $300 per month, or (b) 50% of the member's benefit calculated at the 2 1/2% accrual rate for all creditable service.

POST-RETIREMENT INCREASES

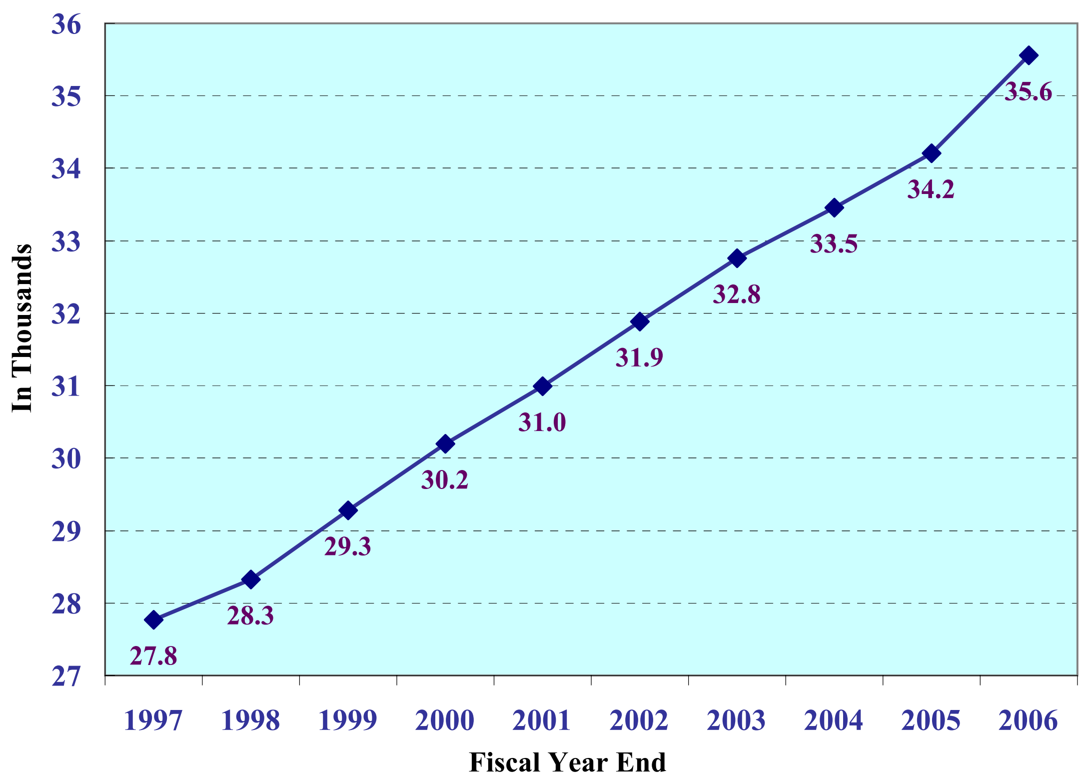
Cost of living adjustments (COLAs) are permitted provided there are sufficient funds in the Experience Account to fund the increase in the retiree reserves. The Experience Account is credited with 50% of the excess investment income over the actuarial valuation rate and is debited 50% of the deficit investment income and distributions for COLAs approved by concurrent resolution of both houses as provided by law.



Statistical Section

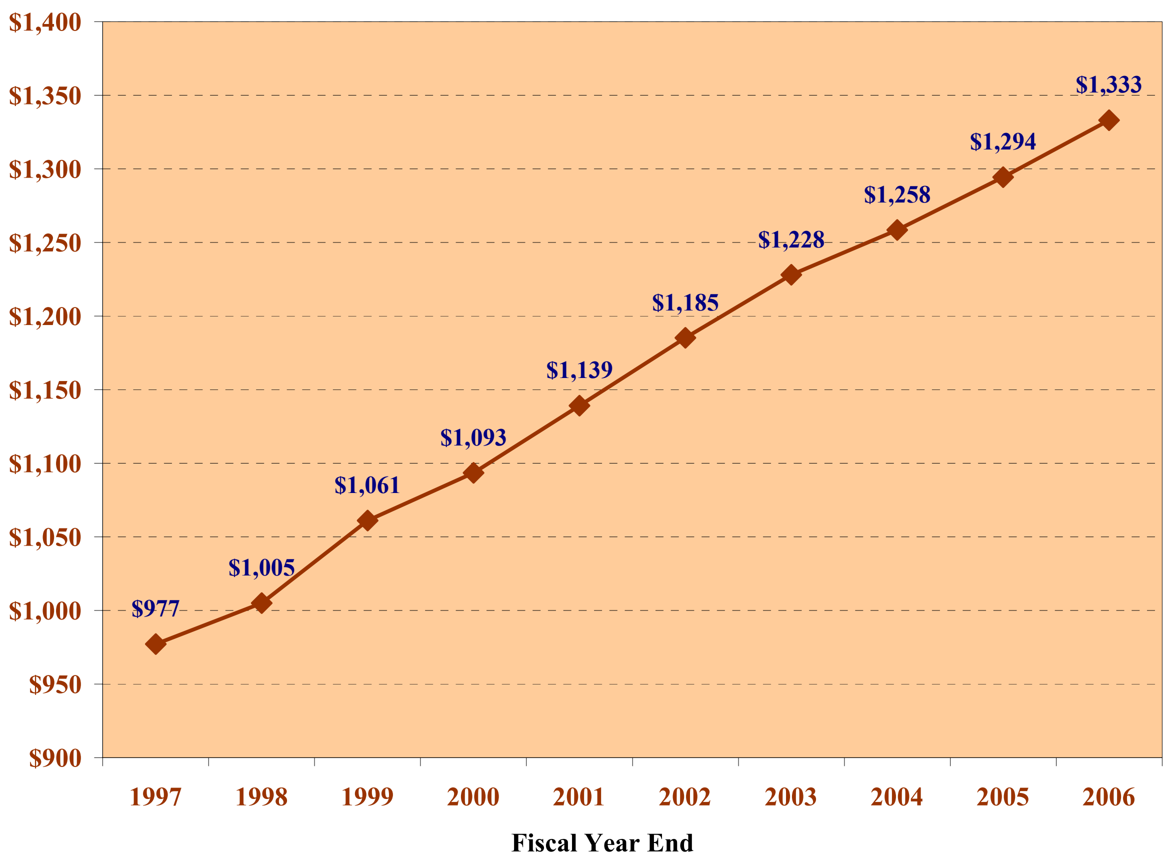
NUMBER OF BENEFIT RECIPIENTS

Fiscal Year End	Recipients	Net Change
1997	27,766	2.7%
1998	28,326	2.0%
1999	29,283	3.4%
2000	30,197	6.6%
2001	30,992	2.6%
2002	31,887	2.9%
2003	32,757	2.7%
2004	33,456	2.1%
2005	34,205	2.2%
2006	35,555	3.9%



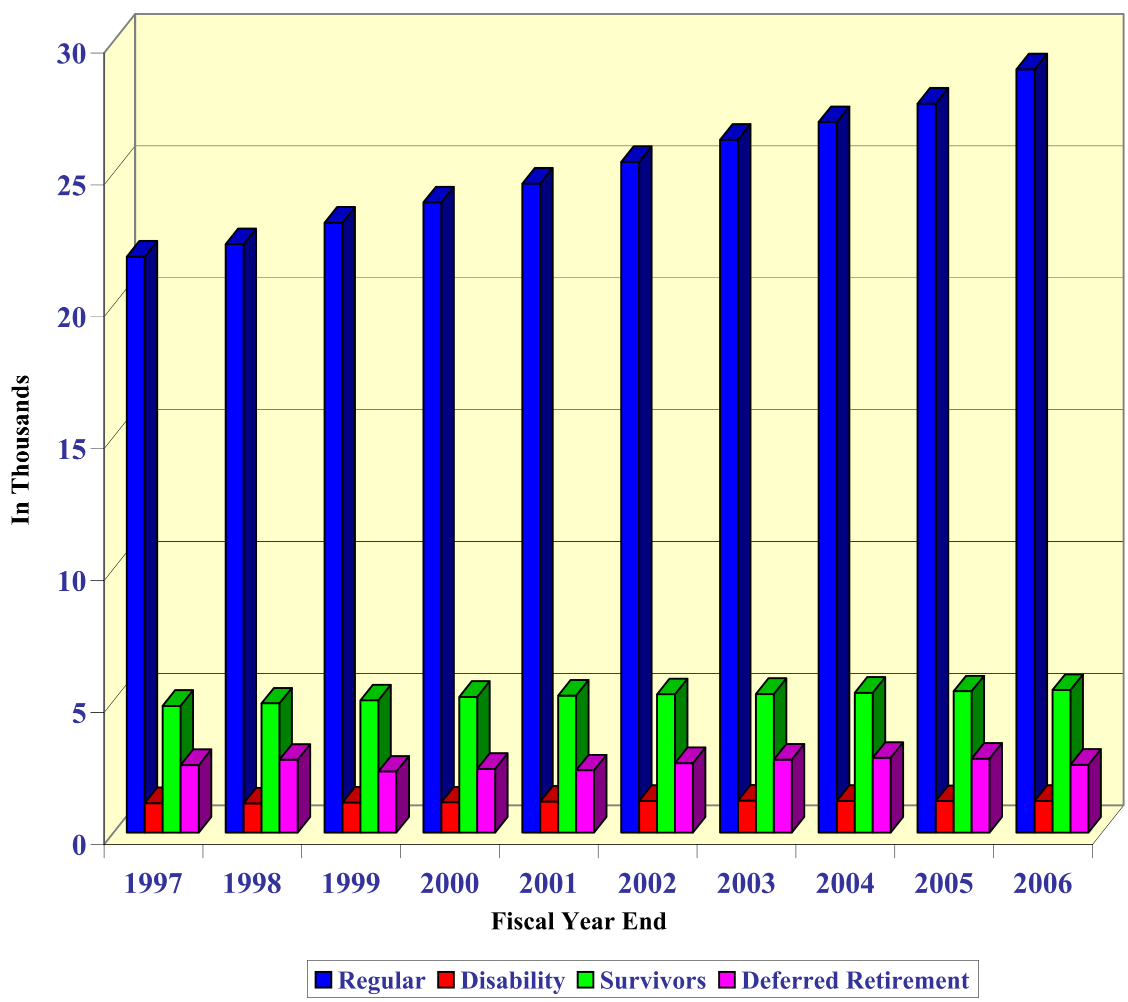
AVERAGE MONTHLY RETIREMENT BENEFIT
(DOES NOT INCLUDE DROP OR IBO)

Fiscal Year End	Average Monthly Benefit	Net Change
1997	$ 977	2.2%
1998	$ 1,005	2.9%
1999	$ 1,061	5.6%
2000	$ 1,093	8.8%
2001	$ 1,139	4.2%
2002	$ 1,185	4.0%
2003	$ 1,228	3.6%
2004	$ 1,258	2.5%
2005	$ 1,294	2.9%
2006	$ 1,333	3.0%



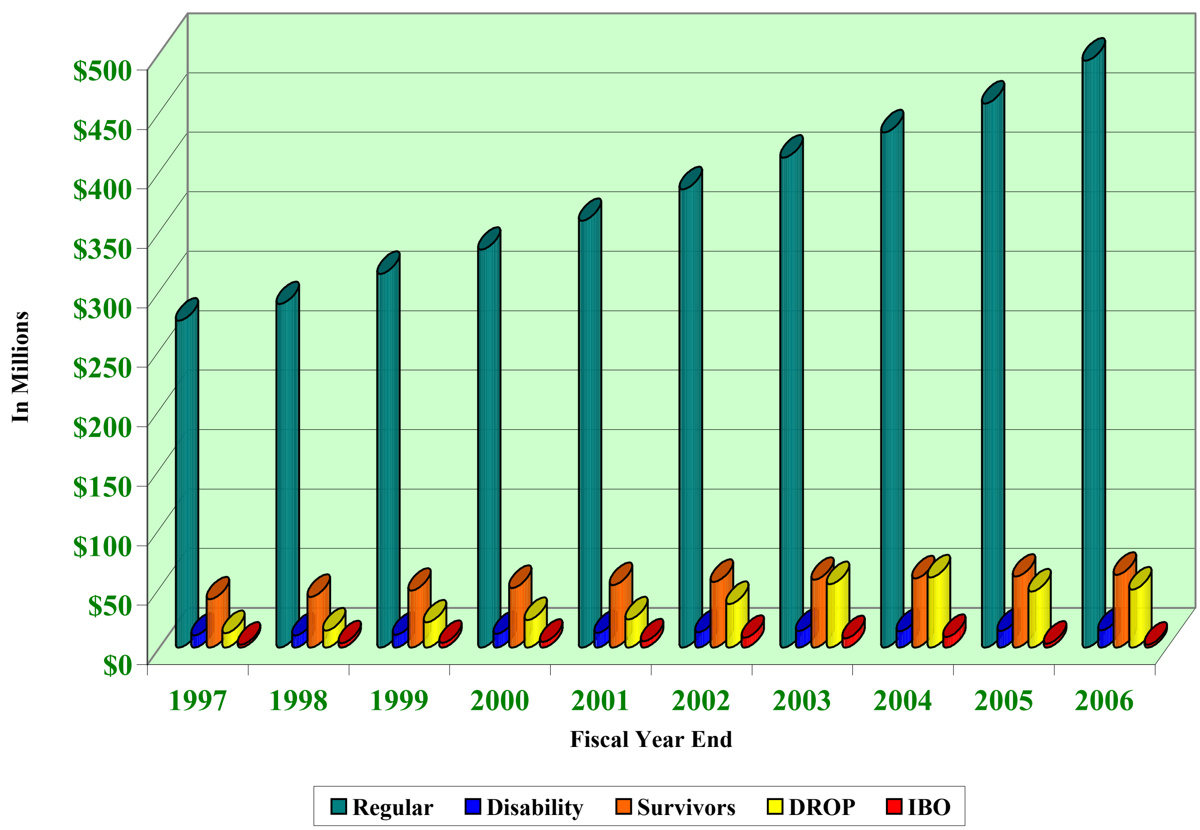
RETIRED MEMBERS BY BENEFIT TYPE

Fiscal Year End	Regular	Disability	Survivors	Deferred Retirement	Total
1997	21,839	1,119	4,808	2,562	30,328
1998	22,314	1,110	4,902	2,766	31,092
1999	23,124	1,146	5,013	2,316	31,599
2000	23,900	1,150	5,147	2,421	32,618
2001	24,606	1,184	5,202	2,365	33,357
2002	25,436	1,208	5,243	2,635	34,522
2003	26,275	1,220	5,262	2,768	35,525
2004	26,945	1,203	5,308	2,835	36,291
2005	27,646	1,199	5,360	2,810	37,015
2006	28,944	1,202	5,409	2,577	38,132



BENEFIT EXPENSES BY TYPE

Fiscal Year End	Regular	Disability	Survivors	Deferred Retirement Option	Initial Benefit Option	Total
1997	$ 274,892,988	10,117,627	40,556,909	12,078,910	2,406,144	$ 340,052,578
1998	$ 288,751,938	10,231,165	42,636,115	14,360,258	3,646,350	$ 359,625,826
1999	$ 314,204,979	10,847,726	47,822,486	21,150,812	3,940,402	$ 397,966,405
2000	$ 334,551,818	11,538,277	50,137,810	23,113,392	4,801,015	$ 424,142,312
2001	$ 358,790,569	12,278,188	52,613,450	23,694,027	5,261,457	$ 452,637,691
2002	$ 385,341,420	13,026,215	55,186,446	36,609,129	8,229,507	$ 498,392,717
2003	$ 411,933,100	13,859,977	56,972,676	53,322,395	7,921,433	$ 544,009,581
2004	$ 433,175,565	13,818,110	58,207,404	59,048,130	8,903,537	$ 573,152,747
2005	$ 457,521,300	14,051,770	59,662,090	47,091,359	3,338,644	$ 581,665,163
2006	$ 493,538,491	14,451,268	61,151,906	48,744,710	2,481,107	$ 620,367,483



SCHEDULE OF ADDITIONS BY SOURCE AND DEDUCTIONS BY TYPE
For The Ten Years Ended June 30, 2006

Additions By Source

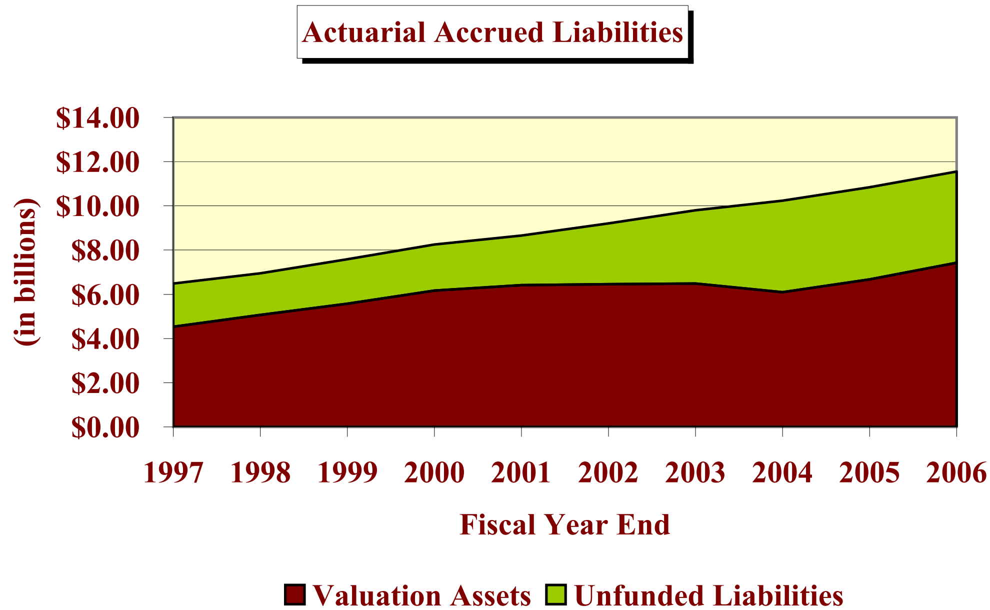
Fiscal Year	Member Contributions	(1) Employer Contributions	Net Investment Income (3)	Other Income	Total	(2) Annual Covered Payroll	Percentage (1)/(2)
1997	$ 126,793,791	204,985,747	735,749,729	8,903,383	$ 1,076,432,650	$ 1,653,141,267	12.4%
1998	$ 129,724,456	219,680,934	605,216,464	10,177,305	$ 964,799,159	$ 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%
2000	$ 147,090,812	236,104,720	664,556,035	8,658,621	$ 1,056,410,188	$ 1,919,487,365	12.3%
2001	$ 144,603,488	245,213,071	(408,921,855)	12,102,647	$ (7,002,649)	$ 1,885,417,750	13.0%
2002	$ 151,350,321	256,079,880	(342,821,109)	14,658,709	$ 79,267,801	$ 1,969,622,814	13.0%
2003	$ 159,469,854	292,290,126	212,771,376	15,137,037	$ 679,668,393	$ 2,072,945,958	14.1%
2004	$ 163,277,178	335,991,617	996,067,481	9,325,388	$ 1,504,661,664	$ 2,125,561,464	15.8%
2005	$ 169,143,849	391,870,045	650,345,827	37,363,680	$ 1,248,723,401	$ 2,201,578,577	17.8%
2006	$ 165,509,666	424,850,496	833,207,981	33,115,285	$ 1,456,683,428	$ 2,147,080,974	19.8%

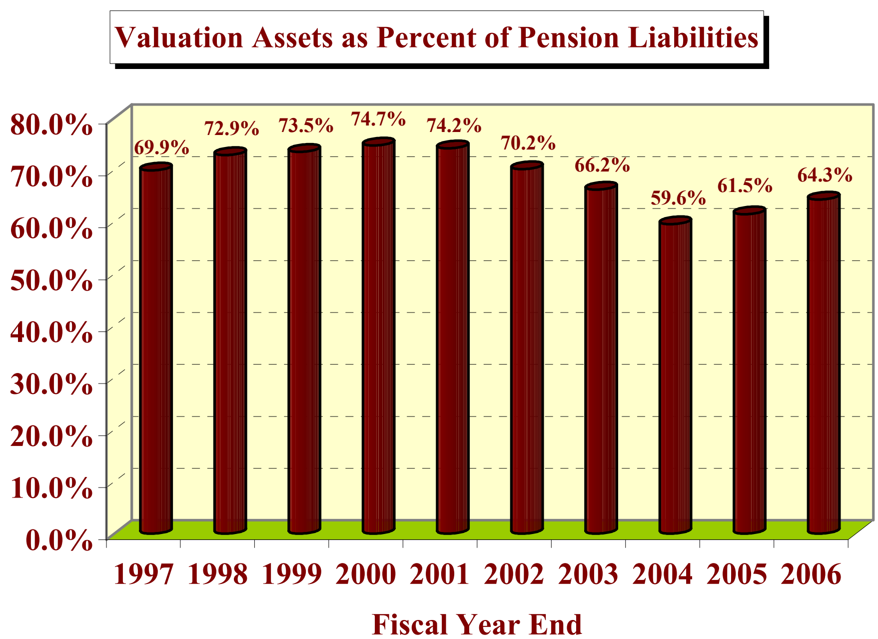
Deductions By Type

Fiscal Year	Benefits	Refunds	Administrative	Total	Investment Expenses (3)
1997	$ 340,052,578	28,945,409	6,773,910	$ 375,771,897	$ 15,143,892
1998	$ 359,625,826	32,156,373	9,205,446	$ 400,987,645	$ 17,162,772
1999	$ 397,966,405	31,851,567	8,789,890	$ 438,607,862	$ 16,071,796
2000	$ 424,142,312	32,300,258	10,242,213	$ 466,684,783	$ 19,295,553
2001	$ 452,637,691	36,147,087	13,872,636	$ 502,657,414	$ 18,916,270
2002	$ 498,392,717	31,391,355	13,259,572	$ 543,043,644	$ 17,213,862
2003	$ 544,009,581	25,043,817	11,829,437	$ 580,882,835	$ 16,901,210
2004	$ 573,152,747	28,760,064	13,424,318	$ 615,337,129	$ 20,266,725
2005	$ 581,665,163	30,357,532	18,634,313	$ 630,657,008	$ 24,114,417
2006	$ 620,367,483	37,821,549	16,041,572	$ 674,230,604	$ 28,869,631

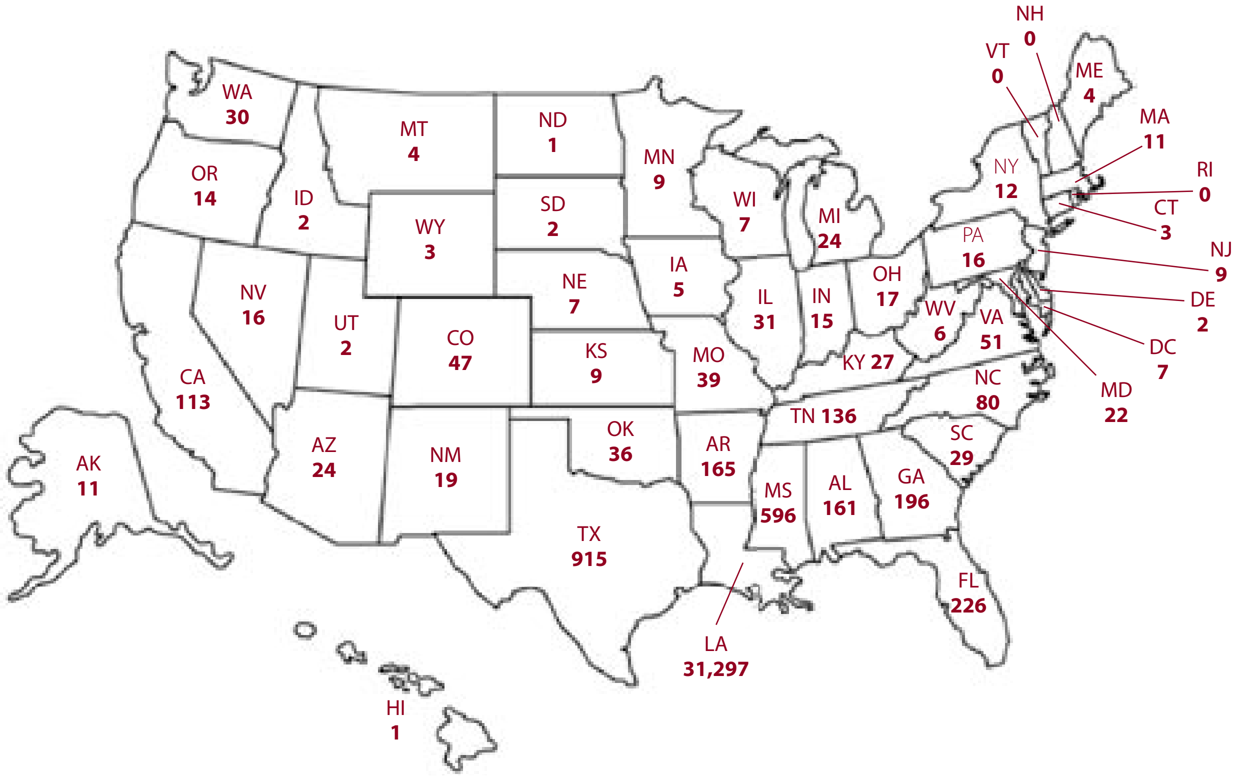
(3) Investment income less investment fees includes net appreciation (depreciation) in fair value of investments, which can create significant fluctuations from year to year. These fluctuations could also affect Investment Expenses.

NET ASSETS vs. PENSION LIABILITIES
Ten Years Ended June 30, 2006





LOCATION OF LASERS RETIREES



FOREIGN COUNTRIES

AUSTRALIA	1
COLOMBIA	1
ENGLAND	1
FRANCE	1
GERMANY	1
MEXICO	2
NETHERLANDS	1
SOUTH KOREA	1
THAILAND	1
TURKEY	1
VIRGIN ISLANDS	3

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