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TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A COMPONENT UNIT OF THE STATE OF LOUISIANA

FISCAL YEAR ENDED JUNE 30, 2006

Teachers' Retirement System of Louisiana
Comprehensive Annual Financial Report
A Component Unit of the State of Louisiana
For the Fiscal Year Ended
June 30, 2006

MAUREEN H. WESTGARD
DIRECTOR

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PREPARED BY THE ACCOUNTING AND INVESTMENT DEPARTMENTS
OF THE
TEACHERS' RETIREMENT SYSTEM OF LOUISIANA

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INTRODUCTORY SECTION

TRSL
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October 1, 2006

Board of Trustees
Teachers' Retirement System of Louisiana
Post Office Box 94123
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Dear Board Members:

I am pleased to present the Comprehensive Annual Financial Report of the Teachers' Retirement System of Louisiana (TRSL) for the fiscal year ended June 30, 2006. Louisiana Revised Statute 11:832(B) requires that a report be published annually "showing the fiscal transactions of the retirement system for the preceding school year, the amount of the accumulated cash and securities of the system, and the last balance sheet showing the financial condition of the system by means of an actuarial valuation of the assets and liabilities of the retirement system."

Responsibility for the accuracy of financial statements and all disclosures rests with management. To the best of our knowledge and belief, all information is accurate and has been prepared according to the generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB).

This report consists of six sections:

1. The **Introductory Section** contains this letter of transmittal; listings of the Board of Trustees, administrative staff, and professional consultants; TRSL's organizational chart; the *Certificate of Achievement for Excellence in Financial Reporting*; the *Public Pension Standards Achievement Award*; a summary of 2005-2006 legislation; and a plan summary covering all the benefit provisions.

2. The **Financial Section** includes the independent auditor's report, management's discussion and analysis, basic financial statements, accompanying notes to the financial statements, required supplementary information, and supporting schedules.

3. The **Investment Section** contains a report on investment activity, the investment policy, a summary of the value of investment assets by type, a list of the largest assets held, net earnings on investments, investment performance measurements, annual rates of return, and a schedule of commissions paid to brokers.

4. The **Actuarial Section** consists of the actuary's certification letter, a summary of assumptions, an actuarial valuation balance sheet, other pertinent actuarial data, and principal provisions of the plan.

5. The **Statistical Section** displays trend information on selected data, various graphs, and a list of employing agencies that remit contributions to TRSL.

6. The **Alternative Retirement Plans Section** contains information on TRSL's various retirement structures: the Optional Retirement Plan (ORP), the Deferred Retirement Option Plan (DROP/LaDROP), the Initial Lump-Sum Benefit (ILSB/LaILSB), and the Excess Benefit Plan.

ORIGIN AND PURPOSE OF THE SYSTEM

TRSL is a defined benefit pension plan, established by the state legislature on August 1, 1936, to provide retirement and other benefits for Louisiana teachers. All invested funds, cash, and property are held in the name of TRSL for the sole benefit of the membership. A sixteen-member Board of Trustees (composed of ten active members, two retired members, and four ex-officio members) governs TRSL.

FIDUCIARY RESPONSIBILITY

The financial interest of our membership is of paramount importance, and all duties of the Board and management are performed in accordance with their fiduciary responsibilities. There can be no conflict of interest concerning the membership; the highest standards of ethical management must be met; assets must be managed prudently; and the best legal and investment expertise must be employed in deciding on the allocation of funds.

CONTROLS

In accordance with the Board's and management's goals and policies, TRSL maintains a system of internal controls to reasonably assure that assets are properly safeguarded, resources are efficiently and economically employed, and financial information is reliable and accurate. To achieve these objectives, TRSL employs advanced computer technology, continuing education for staff, and numerous checks and balances within the control environment, which include an internal audit department. An operating budget for administrative expenses is prepared each year by the staff to address member and employer needs while keeping costs reasonable. The Board of Trustees must review and approve the annual budget and any changes during the year. In addition to the trustees' review and approval, the budget must be reviewed and approved by the Joint Legislative Committee on the Budget. An independent certified public accounting firm audits the financial statements to ensure that they conform to generally accepted accounting principles and performs an annual financial and compliance audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) begins on page 28 and provides an overview and analysis of the System's basic financial statements. This letter of transmittal complements the MD&A and should be read in conjunction with it.

INVESTMENTS

TRSL is the state's largest public retirement system and is responsible for the prudent management of an investment portfolio with a market value of $13.8 billion. Diversification to reduce risk is evident in the allocation of investment assets. TRSL utilizes a wide range of investments to provide the diversification necessary to control risk—domestic and international stocks and bonds, real estate, private equity and mezzanine partnerships, and short-term investments. Diversification is fine-tuned even further by breaking down the previously mentioned categories by style (growth and value), size of company, industry, type of bond, etc. For fiscal year 2006, our investment policy asset mix provided a 14.3 percent return with 5- and 10- year averages of 7.4 percent and 9.0 percent, respectively. A more detailed exhibit of investment performance can be found on page 95. TRSL's investment policy can be found on pages 70 through 82.

FUNDING

The actuary determines the annual funding requirements needed to meet current and future benefit obligations. Actuarial contributions are based on normal cost and amortization of the unfunded accrued liability. Employers are required to pay the percentage of total payroll equal to the normal cost plus an amount sufficient to amortize the unfunded accrued liability as outlined in Louisiana Revised Statue 11:102 as it pertains to TRSL. The required contribution is converted to a percentage of total payroll.

Act 642 of 2006 provided a one-time appropriation of $26.4 million to accelerate the payoff of the initial unfunded accrued liability.

The employer contribution rate established by the Public Retirement Systems' Actuarial Committee (PRSAC) was 15.8 percent for 2005-2006 and will be 16.5 percent for 2006-2007. The increase in the employer contribution rate is attributable to the schedule set by the legislature for the amortization of the initial unfunded accrued liability.

At June 30, 2006, the last valuation date, TRSL was 66.2 percent funded, compared to 63.6 percent at June 30, 2005, excluding the mineral revenue audit and settlement funds and the 2006 supplemental appropriation. This increase results from favorable investment market conditions. Net assets held in trust to pay pension benefits at June 30, 2006, totaled $14.0 billion, which is a 10.2 percent increase from $12.7 billion held in trust at June 30, 2005.

MAJOR INITIATIVES

Our efforts are dedicated, first and foremost, to the benefit of our members. Every department at TRSL works together to provide the highest quality customer service. Key accomplishments are summarized as follows:

Cost efficiency earns national recognition

For the third consecutive year, TRSL participated in an independent national study of public pension administrations, conducted by Cost Effective Measurement, Inc. This study compares several areas, such as costs for service delivery, service levels, and complexity of plans among similar pension systems. We are pleased that our administrative cost of $72 per active member and annuitant is far below the expected cost of $137 per member. Given the complexity of our plan, these results continue to demonstrate our commitment to providing quality service while maintaining a cost-effective approach.

Statistics reflect impact of Hurricanes Katrina and Rita

This past year, the Teachers' Retirement System of Louisiana (TRSL), along with the Gulf Coast region, endured the most intense and active hurricane season in recorded history. Perhaps our greatest achievement as a group was our response to members and retirees who were affected by the devastation left in the wake of the storms.

All departments within TRSL played a significant part in continuing to provide quality service to our impacted members. With many of our members displaced from their homes, we were challenged with rerouting benefit payments immediately after the storms. We were successful in rerouting more than 7,000 benefit payments. Incoming monthly call volumes increased from a normal high of 5,700 during our peak season to more than 10,500 immediately following the hurricanes. The number of refunds of member contributions increased by 72.0 percent and we also experienced a 36.0 percent increase in retirements over the previous year. We held four special workshops for storm-affected members and implemented numerous provisions of the Gulf Opportunity Zone Act of 2005.

In addition to our storm-related activities, highlights of other major accomplishments are described below:

Supported legislation to provide a one-time appropriation of $26.4 million dedicated to accelerating the payoff of the initial unfunded accrued liability.

Completed restructuring of the small- and mid-cap portfolios to a small/mid (SMID) approach with a "core" component. This was accomplished by using a transition manager, which saved TRSL approximately $40 million.

Our multi-department "Form 6 Project" was rolled out to employers. This web-based application will enhance employer reporting procedures and processes used to certify members' employment history before retirement. The streamlined process provides a time- and money-saving electronic service for employers and expedites the retirement process for members. In the short time that the new process has been in place, we have seen significant benefits to our work functions and enthusiasm over the ease of use from our employers.

Highlights by the departments

The Accounting Department completed programming and testing of the general ledger interface with our investment custodian, Mellon Bank, for download of all investment transactions into the System's accounting software. This new automation process will enable closing to be within 45 days of month's end.

Our Administrative Services Department received a clean audit from the Division of Administration's Office of Risk Management. The audit encompassed nearly every area from management of our transportation fleet to compliance with a blood-borne pathogen policy.

The Audit Department completed 88 employer audits. These employers had never been audited by TRSL in the past. This is the first year of a five-year plan that now has the Audit Department approximately halfway to its long-term goal of auditing all employers.

The Communications Department established an employer/member listserv to quickly deliver news and information to all who subscribe.

Our Human Resources Department established a new time and attendance policy that allows staff more flexibility during the work week. It includes updated, HR-related policies, procedures and software to track employee time and attendance.

The Information Technology Department provided programming for the withdrawals from DROP/ILSB and Refund accounts in accordance with the Gulf Opportunity Zone Act of 2005. The department was also instrumental in the design, programming, and implementation of the "Form 6 Project."

Our Investment Department implemented the use of Private I to generate the "Quarterly Transaction Summary Report" for alternative investments.

The Legal Department coordinated all activities dealing with legislation affecting the System for two special sessions and the regular session of the Louisiana Legislature.

Our Retirement Department completed the Option 1 interest deletion project which required the recalculation of 1,475 benefits. The department was also very instrumental in assisting with the development and implementation of the "Form 6 Project."

The Retirement Education Department increased the retirement awareness of younger members through orientations and mid-career workshops and conducted four workshops for members impacted by the hurricanes.

For the future

Fulfilling our mission to serve our members guides all we do, including planning for and developing new services.

Members will soon have the ability to access their personal account information online. TRSL staff is developing and programming user-friendly applications and ensuring that the data will remain enveloped in a secure environment. Members will be able to view their service credit, payroll information, benefit payment history, beneficiary information, and a variety of other pertinent information.

Each year an assessment of our electronic data security is performed by the internal Audit Department with the help of an independent information technology consulting firm. Through these assessments, TRSL is able to enhance its data security strategy to ensure the confidentiality, integrity, and availability of system data. Enhancements this past year include the use of additional monitoring and threat detection software in Internet applications, reduced use of sensitive information in all forms of communication and the implementation of data encryption in the transfer of member data. We anticipate all employers will utilize data encryption safeguards by the end of the year.

To ensure that we remain faithful to the TRSL mission, we will continue to assess annually the quality of our services, using a Balanced ScoreCard, which measures performance indicators such as customer satisfaction, financial stewardship, operational productivity, and staff development.

INDEPENDENT AUDIT

Each year, an independent certified public accounting firm performs a financial and compliance audit of TRSL. The current auditors are Hawthorn, Waymouth & Carroll, L.L.P., located in Baton Rouge, Louisiana. The audit of our financial statements is performed in accordance with generally accepted auditing standards and *Government Auditing Standards* as issued by the Comptroller General of the United States.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to TRSL for its comprehensive annual financial report for the fiscal year ended June 30, 2005. This was the 15th consecutive year the System achieved this prestigious award. To be awarded a *Certificate of Achievement*, a government entity must publish an easily readable and efficiently organized comprehensive annual financial report that follows both generally accepted accounting principles and applicable legal requirements.

A *Certificate of Achievement* is valid for one year. We believe this current comprehensive annual financial report continues to meet the *Certificate of Achievement* program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

TRSL also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for the fiscal year ended June 30, 2005. This is the fourth consecutive year that TRSL has received this award, which recognizes excellence for readily understood financial reports that are less technical in nature and provide interesting financial, actuarial and historical information.

In addition, TRSL received the *Public Pension Standards 2005 Award*. The Public Pension Coordinating Council presents this certificate to public employee retirement systems that achieve high professional standards in the areas of plan design and administration, benefits, actuarial valuations, financial reporting, investments, and disclosures to members. TRSL is proud to have received this award for the sixth time.

TRSL again received awards for contributions made by our staff to the community. The March of Dimes 2006 WalkAmerica Campaign recognized the TRSL staff for our donation of $4,847. Over the past six years, TRSL has donated more than $35,000 to the March of Dimes. TRSL staff exceeded its goal and raised more than $9,800 for the 2005 United Way campaign.

ACKNOWLEDGEMENTS

We would like to take this opportunity to acknowledge our Board of Trustees for your dedication to the financial stability and integrity of the System. The unwavering support you provide enables the TRSL staff to successfully accomplish our goals.

We would also like to recognize the teamwork and contributions of our experienced and dedicated staff. They continue to keep the best interest of our members as their top priority. This past year has been a tumultuous, humbling experience for all of us as we continue to move forward in the wakes of Hurricanes Katrina and Rita. We will continue striving to provide excellent service. We thank you for another successful year.

Respectfully submitted,

Maureen H. Westgard
Director

Charlene T. Wilson
Chief Financial Officer

BOARD OF TRUSTEES

Administrative Staff

Maureen H. Westgard
Director

Graig A. Luscombe
Assistant Director

Dana L. Vicknair
Assistant Director

Dan H. Bryant
Chief Investment Officer

Roy A. Mongrue, Jr.
General Counsel

Charlene T. Wilson
Accountant Administrator

Stuart Cagle, CPA
Audit Director

Vacant
Information Systems Center Director

Linda Strawbridge
Retirement Benefits Administrator

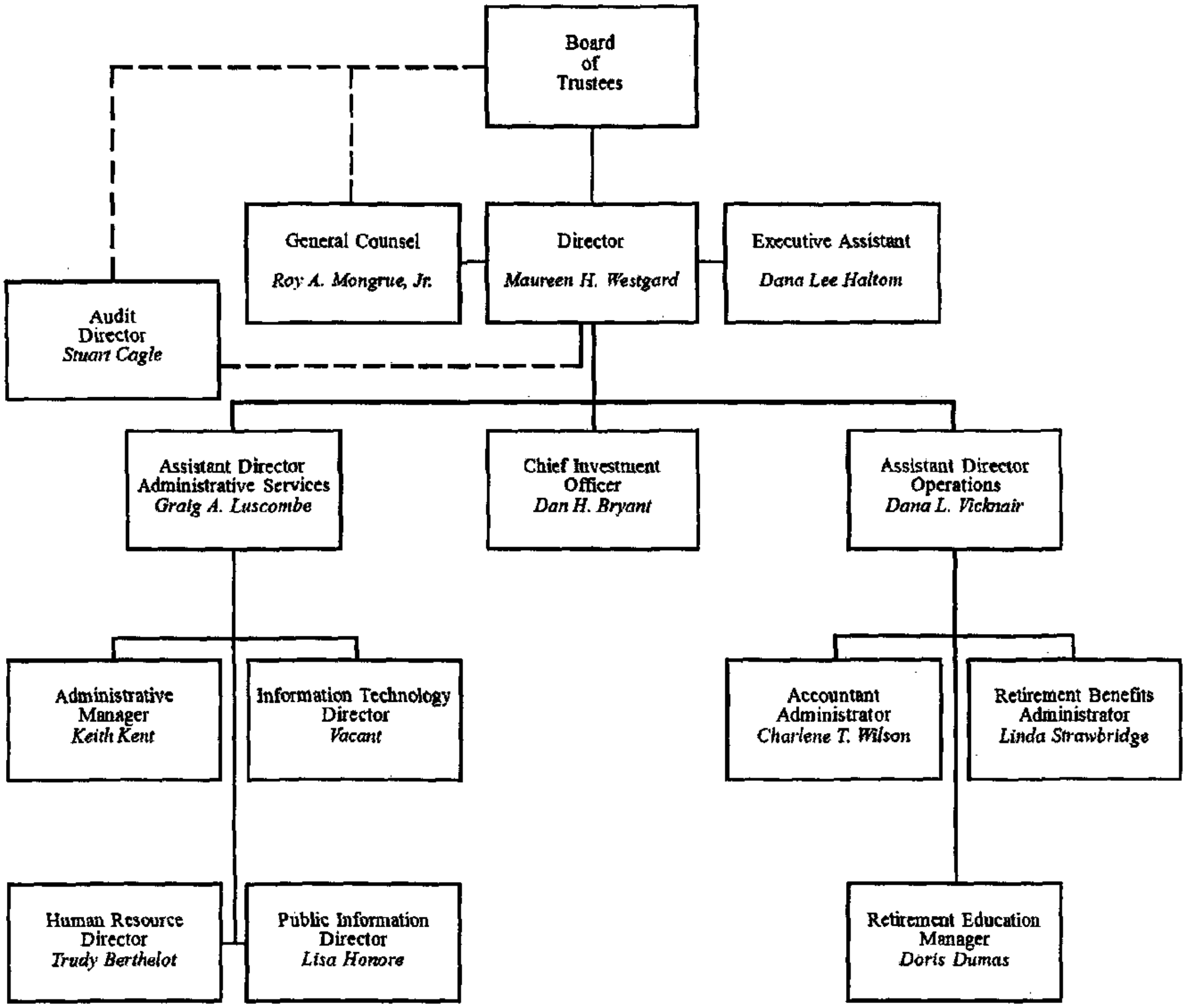
Keith Kent
Administrative Manager

Lisa Honore
Public Information Director

Doris Dumas
Education Field Manager

Trudy Berthelot
Human Resource Director

ORGANIZATIONAL CHART



A list of TRSL consultants and investment advisors can be found on pages 14-15.

PROFESSIONAL CONSULTANTS

ACTUARY

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SJ Actuarial Associates
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Media, PA 19063-5134

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Lawrence D. Wade, M.D.
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MORTGAGE-BACKED FIXED INCOME ADVISOR

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GLOBAL FIXED INCOME ADVISORS

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Philadelphia, PA 19104

FIXED INCOME DOMESTIC INVESTMENT GRADE ADVISORS

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Mail Code OH1-0211
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Earnest Partners, L.L.C.
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1180 Peachtree Street
Atlanta, GA 30309

HIGH YIELD FIXED INCOME ADVISORS

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PROFESSIONAL CONSULTANTS (continued)

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Norwalk, CT 06851

Deutsche Asset Management
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New York, NY 10154

Bear Stearns Asset Management, Inc.
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SMALL CAP INTERNATIONAL EQUITY ADVISORS

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Custodial Trust Company
101 Carnegie Center
Princeton, NJ 08540-6231

Bear Stearns & Co.
Suite 200
300 Crescent Court
Dallas, TX 75201

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of Louisiana

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Public Pension Coordinating Council
Public Pension Standards
2005 Award

Presented to

Teachers' Retirement System of Louisiana

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

SUMMARY 2005-2006 LEGISLATION

The following is a brief synopsis of legislative action which affects members of Teachers' Retirement System of Louisiana.

LEGISLATION AFFECTING STATE AND STATEWIDE PUBLIC RETIREMENT SYSTEMS

1. **Act 44 [Amends and reenacts R.S. 11:281 (B)]**

   This Act waives interest on certain delinquent contributions during a gubernatorially declared disaster or emergency.

   (Effective December 6, 2005)

2. **Act 45 [Amends and reenacts R. S. 11:163 (A) and (C)]**

   This Act provides for public employees on involuntary furlough or leave without pay due to a disaster to continue to earn service credit in their retirement systems by making employee and employer contributions.

   (Effective December 6, 2005)

3. **Act 50 [Enacts Subpart O of Part II of Chapter 4 of Subtitle I of Title 11 of the Louisiana Revised Statutes of 1950, to be comprised of R.S. 11:321]**

   This Act allows certain Hurricane Katrina victims to take in-service distributions from their DROP accounts as relates to public retirement systems.

   (Effective December 6, 2005)

4. **Act 61 [Enacts Subpart O of Part II of Chapter 4 of Subtitle I of Title 11 of the Louisiana Revised Statutes of 1950, to be comprised of R.S. 11:321]**

   This Act allows certain Hurricane Rita victims to take in-service distributions from their DROP accounts as relates to public retirement systems.

   (Effective December 6, 2005)

5. **Act 17 [Enacts R.S. 11:323]**

   This Act allows the suspension and resumption of DROP participation for public school system employees terminated due to a reduction-in-force necessitated by Hurricane Katrina or Rita.

   (Effective January 23, 2006)

6. **Act 501 [Enacts R.S. 11:837]**

   This Act provides for the collection of benefits paid to a TRSL member who was not eligible to receive the benefit payments.

   (Effective June 22, 2006)

SUMMARY 2005-2006 LEGISLATION (continued)

7. **Act 642**

   Supplemental appropriations bill - This Act provides a one-time appropriation of $26,400,000 to accelerate payoff of the initial unfunded accrued liability.

   (Effective June 28, 2006)

8. **Act 774 [Enacts R.S. 17:81(O)]**

   This Act requires local school board employees to be provided paid leave to attend meetings of the TRSL board of trustees and other boards and commissions when that employee is an elected or appointed member.

   (Effective June 30, 2006)

9. **HCR 15**

   Memorializes the United States Congress to take such actions as are necessary to grant for distributions from DROP accounts to active state and local government employees who are members of public retirement systems similar tax relief as that provided to members of qualified retirement plans by the Katrina Emergency Tax Relief Act of 2005, and to permit such distributions from tax-qualified plans.

10. **HCR 27**

    Memorializes the United States Congress to take such actions necessary to grant to victims of Hurricane Rita similar tax relief as that provided by the Katrina Emergency Tax Relief Act of 2005, and to include distributions from DROP accounts to active state and local government employees who are members of public retirement systems and who are victims of Hurricane Katrina and Hurricane Rita as eligible retirement plan distributions, and to permit such distributions from tax-qualified plans.

11. **HCR 63**

    Memorializes the United States Congress to consider eliminating the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) relating to reductions of Social Security benefits.

12. **HSR 1**

    Requests the House Committee on Retirement to study the actuarial soundness, liabilities, and benefits of the Deferred Retirement Option Plans of the state retirement systems and to report its findings to the legislature prior to the convening of the 2007 Regular Session.

13. **HSR 8**

    Requests the House Committee on Appropriations to study methods of funding annual amortization of the unfunded accrued liability of the state retirement systems.

PLAN SUMMARY

Teachers' Retirement System of Louisiana (the "System") was established August 1, 1936, to provide members with a retirement allowance. On July 1, 1971, the Orleans Teachers' Retirement Fund merged with the Teachers' Retirement System of Louisiana. On January 1, 1979, members of the Louisiana State University Retirement System were transferred to either the Teachers' Retirement System of Louisiana or the Louisiana State Employees' Retirement System. On July 1, 1983, the Louisiana School Lunch Employees' Retirement System was merged with this System. The Louisiana School Lunch Employees' Retirement System contained two plans: Plan A - for members who are employed by the school system and who are not covered by the Social Security system; and Plan B - for members who are employed by the school system and who are covered by the Social Security system.

BENEFIT PROVISIONS

A. ELIGIBILITY REQUIREMENTS

The System provides retirement benefits as well as disability and survivor benefits. Five years of service credit is required to become vested for retirement, disability and survivor benefits.

Those employees who meet the legal definition of a "teacher" are eligible for membership. Louisiana Revised Statutes 11:701(33)(a) states:

"... any employee of a city or parish school board, parish or city superintendent, or assistant superintendent of public schools, president, vice president, dean, teacher, guidance counselor, or an unclassified employee at any state college or university or any vocational-technical school or institution or special school under the control of the State Board of Elementary and Secondary Education, or any educational institution supported by and under the control of the state or any parish school board, full-time unclassified employees of boards created by Article VIII of the Constitution of Louisiana who became employed on or after July 1, 1991, provided that such persons employed on and after July 1, 1991, who are members of the Louisiana State Employees' Retirement System shall remain members of the Louisiana State Employees' Retirement System, the president and staff of the Louisiana Federation of Teachers who were members of the Teachers' Retirement System prior to such employment, the president or secretary and staff of the Louisiana Association of Educators. Notwithstanding the provisions of this Item or any other provision of law to the contrary, any non-bargaining employee whose initial effective date of employment occurred on or before June 30, 2001, shall be eligible to irrevocably elect to terminate his membership in this system, provided such election to terminate membership is exercised on or before September 30, 2001. Any non-bargaining employee whose initial effective date of employment occurs on or after July 1, 2001, shall have the irrevocable option to not participate in this system, provided that such option to not participate must be made within sixty days after the effective date of his employment and any such employee who fails to exercise the option not to participate shall become a participating member of this system. For purposes of this Subitem, the phrase "non-bargaining employee" shall mean any employee of the Louisiana Association of Educators whose employment is not covered by a collective bargaining agreement. Notwithstanding any other provision of law to the contrary, any non-bargaining employee who retires from the Teachers' Retirement System and later is reemployed in a position covered by the provisions of this Chapter shall not have his retirement benefits reduced or suspended during such reemployment. Employees of the Teachers' Retirement System of Louisiana, provided that persons employed by the Teachers' Retirement System on and after July 1, 1991, who are members of the Louisiana State Employees' Retirement System shall remain members of the Louisiana State Employees' Retirement System, the director and staff of the Associated Professional Educators of Louisiana, and the secretary and staff of the Louisiana High School Athletic Association. Notwithstanding the provision of this Item or any other provision of law to the contrary, any director, secretary, staff member, or any other individual employed by the Louisiana High School Athletic Association on or after July 1, 2000, who does not have a valid Louisiana teacher's certificate shall not be required to participate in the system. Any person covered by a sub-item of this Item who has a valid Louisiana teacher's certificate shall be required to participate in the system provided the person satisfies all other eligibility criteria. For purposes hereof, staff personnel involved in the administration of a health and welfare program for the benefit of employees of a school board, which program is coordinated by the school board and a teacher association, and which staff personnel are so designated by the school board, shall be considered to be employees of the school board provided that such employees were previously members of this system. In all cases of doubt, the board of trustees shall determine whether any person is a teacher within the scope of the definition herein set forth."

B. RETIREMENT BENEFITS

A member who retires at or after a certain minimum age and years of service is entitled to a monthly retirement benefit payable for life or the joint lives of the member and beneficiary. The benefit formula to calculate the benefit is based on a percentage of the member's average salary for the thirty-six highest successive months.

PLAN SUMMARY (continued)

TEACHERS' REGULAR PLAN

Service retirements are granted when the following eligibility requirements are met:

For persons who became members prior to July 1, 1999

Years Service	Minimum Age	Formula Percentage
5	60	2.0%
20	Any Age	2.0%
25	55	2.5%
30	Any Age	2.5%
20	65	2.5%

For persons who become members on or after July 1, 1999

Years Service	Minimum Age	Formula Percentage
5	60	2.5%
20	Any Age	2.5% Actuarially reduced
25	55	2.5%
30	Any Age	2.5%

TEACHERS' PLAN A

Years Service	Minimum Age	Formula Percentage
5	60	3%
25	55	3%
30	Any Age	3%

Members of Plan A, who did not contribute to retirement until their employing agencies withdrew from Social Security coverage, will receive one percent for those years plus $24 per year for each year that retirement was not paid and three percent for each year after employing agencies withdrew from Social Security coverage and retirement contributions were paid on the member's salary.

TEACHERS' PLAN B

Years Service	Minimum Age	Formula Percentage
5	60	2%
30	55	2%

C. DEFERRED RETIREMENT

Any member with service credit of five or more years may cease covered employment, leave the accumulated contributions in the System and, upon reaching age sixty, receive a retirement allowance based on the credit he had at the time he ceased covered employment.

D. DISABILITY BENEFITS

A member is eligible for disability retirement after five years of creditable service and certification of disability by the State Medical Disability Board.

TEACHERS' REGULAR PLAN

(1) A member shall receive a retirement allowance upon retirement for disability. A factor of two and one-half percent shall be used in the computation of the disability benefit. The maximum disability benefit cannot exceed fifty percent of the average final compensation. However, the minimum disability benefit cannot be less than forty percent of the state minimum teaching salary or seventy-five percent of compensation, whichever is less.

PLAN SUMMARY (continued)

(2) No unused accumulated sick or annual leave shall be used in the computation of disability allowance unless the member was eligible to receive a service retirement allowance at the time of disability retirement.

In addition to the benefits provided under Subsection A of this Section, if a disability retiree has a dependent minor child, he shall be paid an added benefit equal to fifty percent of his disability benefit for so long as he has a dependent minor child, and provided that the total benefit payable, including the minor child benefit, does not exceed seventy-five percent of average final compensation.

TEACHERS' PLAN A

The eligibility requirements and provisions previously stated regarding disability benefits for Teachers' Regular Plan members also apply to Teachers' Plan A members except for percentages used in the formula to calculate the benefit. A member of Plan A receives one percent in the formula for the service credit received for years when he paid Social Security only. He receives three percent for each of the other years of service credit.

TEACHERS' PLAN B

A normal retirement allowance is granted, if eligible, otherwise the formula is two percent of average final compensation times years of creditable service, provided that amount is not less than thirty percent nor more than seventy-five percent of average final compensation, in the event no optional selection is made by the member.

E. SURVIVOR BENEFIT

Survivor benefits are provided under all three plans for the deceased member's spouse and minor children when certain requirements such as years of service, marital status, etc., are met. If a member dies, even after retirement, eligible minor children shall receive benefits.

TAX SHELTERING OF CONTRIBUTIONS

On July 1, 1988, Teachers' Retirement System of Louisiana implemented a tax sheltering plan whereby the employers picked up members' contributions by designating such contributions as employer contributions. These contributions are excluded from the gross income of the members until the time of refund, death, or retirement. The tax sheltered plan complies with requirements of Section 414(h) of the Internal Revenue Code.

OPTIONAL RETIREMENT PLAN

In 1989, the Louisiana Legislature established an Optional Retirement Plan for academic employees of public institutions of higher education who are eligible for membership in the Teachers' Retirement System of Louisiana.

The Optional Retirement Plan is a defined contribution plan that provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participants. Employees in eligible positions of higher education can make an irrevocable election to participate in the Optional Retirement Plan rather than the Teachers' Retirement System of Louisiana and purchase annuity contracts for benefits payable at retirement.

Louisiana Revised Statutes 11:921 through 11:931 required the Board of Trustees of Teachers' Retirement System of Louisiana to implement the Optional Retirement Plan by March 1, 1990, and the public institutions of higher education to implement the Optional Retirement Plan on July 1, 1990.

In accordance with the statutes, the Board of Trustees selects up to three carriers with whom the participants may invest their contributions. The three companies selected are Aetna Life Insurance and Annuity Company, Teachers Insurance and Annuity Association-College Retirement Equities Fund, and The Variable Annuity Life Insurance Company.

DEFERRED RETIREMENT OPTION PLAN

On July 1, 1992, the Deferred Retirement Option Plan became effective. This plan, which is described on pages 131 and 132 of this report, is another alternative plan of retirement. Withdrawals from the plan are subject to certain provisions of the Internal Revenue Code. Distributions from the plan are taxable to the recipient when received. No distributions can be made until the member terminates employment.

PLAN SUMMARY (continued)

INITIAL LUMP SUM BENEFIT (ILSB)

The ILSB program became effective January 1, 1996. Under this program, a retiring member who had not participated in the Deferred Retirement Option Plan could select an ILSB alternative. This alternative provides the retiree with a one-time payment of up to thirty-six months of a regular maximum monthly retirement benefit in addition to a reduced regular monthly retirement benefit payable for life.

EXCESS BENEFIT PLAN

On January 1, 2000, Teachers' Retirement System of Louisiana established an Excess Benefit Plan. This plan is an unfunded, non-qualified plan intended to be a qualified excess benefit arrangement. It is designed to pay excess benefits to those members who retired July 1, 1988 or later. The excess benefit is the portion of their TRSL benefit that exceeds the maximum benefit allowed under Section 415 of the Internal Revenue Code.

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FINANCIAL SECTION

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

RICHARD PARKER, C.P.A.
LOUIS C. McKNIGHT III, C.P.A.
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CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

September 5, 2006

Independent Auditor's Report

Members of the Board of Trustees
Teachers' Retirement System of Louisiana
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of plan net assets of the

Teachers' Retirement System of Louisiana
Baton Rouge, Louisiana

a component unit of the State of Louisiana, as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended, which collectively comprise the System's basic financial statements. These financial statements are the responsibility of the Teachers' Retirement System of Louisiana's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers' Retirement System of Louisiana as of June 30, 2006 and 2005, and the changes in net assets 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 9, 2005, on our consideration of the Teachers' Retirement System of Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Required Supplementary Information as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Teachers' Retirement System of Louisiana's basic financial statements. The accompanying financial information listed in the Table of Contents as Supporting Schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Teachers' Retirement System of Louisiana. Such additional information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the financial statements taken as a whole. The introductory section and statistical tables have not ben subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Yours truly,

Hawthorn, Waymouth & Carroll L.L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of TRSL's 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.

FINANCIAL HIGHLIGHTS

- The net assets held in trust were $14 billion in 2006 compared to 12.7 billion in 2005 and 11.9 billion in 2004
- The rate of return on the market value of the System's investments was 14.3 percent for 2006 compared to 10.9 percent in 2005 and 18.2 in 2004.
- The System's funded ratio increased to 67.5 percent at June 30, 2006 compared to 64.6 percent as of June 30, 2005 and 63.1 percent as of June 30, 2004.
- The unfunded actuarial accrued liability decreased from $6.6 billion in 2005 to $6.3 billion in 2006. The unfunded actuarial liability was 6.7 billion in 2004.
- Total benefit payments increased from $1.2 billion in 2005 to $1.3 billion in 2006. The benefits payments were $1.1 billion in 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

The System's basic financial statements include the following: (1) statements of plan net assets, (2) statements of changes in plan net assets and (3) notes to the financial statements. This report also contains required supplementary information 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, June 30, 2005 and June 30, 2004.

The statements of changes in plan net assets report the results of the pension funds operations during the 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.

The notes to the financial statements provide additional information and insight that is essential to gaining a full understanding of the data provided in the statements.

- Note A provides a general description of TRSL, information regarding employer and membership participation, and descriptions of the various plans offered.
- Note B 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, budgetary accounting methods, accumulated leave, and reclassifications.
- Note C provides information regarding member and employer contribution requirements.
- Note D provides information regarding TRSL employee pension benefits.
- Note E describes the System's investments and includes information regarding bank balances, security collateralization, investment credit risk, interest rate risk , and foreign credit risk.
- Note F provides information regarding securities lending transactions.
- Note G describes the various types of derivative investments in which the System may invest.
- Note H provides information on contingent liabilities.
- Note I introduces the required supplementary information
- Note J provides information on implementation of GASB Statement 44.

Required supplementary information consists of two schedules and related notes concerning the funded status of the System.

Supporting schedules include information on budgetary expenses, administrative expenses, investment expenses, Board compensation, building maintenance expenses, and payments to non-investment related consultants.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

TRSL FINANCIAL ANALYSIS

TRSL provides retirement benefits to all eligible teachers, administrative support staff and school food service personnel. Employee contributions, employer contributions, and earnings on investments fund these benefits. Total net assets held in trust to pay pension benefits at June 30, 2006, is $14 billion, compared to $12.7 billion held in trust at June 30, 2005 and $11.9 billion held in trust at June 30, 2004.

CONDENSED COMPARATIVE STATEMENT OF PLAN NET ASSETS

	2006	2005	2004
Cash	$ 59,572,968	$ 24,677,100	$ 30,677,716
Receivables	479,402,178	222,670,447	191,297,088
Investments (fair value)	13,755,624,235	12,491,032,538	11,774,998,309
Securities lending collateral	2,169,031,263	1,742,710,715	1,938,170,626
Capital assets	4,515,507	4,677,169	4,923,034
Total assets	16,468,146,151	14,485,767,969	13,940,066,773
Accounts payable and other liabilities	291,502,140	57,144,665	108,499,255
Securities lending collateral	2,169,031,263	1,742,710,715	1,938,170,626
Total liabilities	2,460,533,403	1,799,855,380	2,046,669,881
Net Assets Held in Trust	**$14,007,612,748**	**$12,685,912,589**	**$11,893,396,892**

Changes in Plan Net Assets

For June 30, 2006 additions to TRSL's plan net assets were derived from member and employer contributions and investment income. For 2006, member contributions decreased $12,207,157 (4.5 percent) while employer contributions increased $12,168,092 (2.3 percent) compared to 2005 member contributions increase of 2.1 percent and employer increase of 16.6 percent. In 2004, the member contributions and employer contributions increased by 5.0 percent. The System's actuary and the Public Retirement Systems' Actuarial Committee (PRSAC) adjust employer contributions annually. The employer rate was 15.8 percent for 2006, 15.9 percent for 2005, and 15.5 percent for 2004. For 2006, the decrease in member contributions is directly related to the effects of Hurricanes Katrina and Rita. There were over 5,000 members terminated by Orleans Parish School Board as a result of the impact of Hurricane Katrina on the City of New Orleans. The total active membership for June 30, 2006 was reduced by 6,352 members (7.2 percent), thereby decreasing the amount of expected member contributions. The System experienced a net investment gain of $1,737,664,681 in 2006 compared to a net investment gain of $1,134,823,923 in 2005 and $1,738,551,936 in 2004. For 2006, the major component of this gain is attributable to our domestic and international common and preferred stock investments.

Deductions from plan net assets totaled $1,256,861,729 in fiscal year 2006, an increase of $73,938,218 or 6.3 percent over fiscal year 2005. In 2005, total deductions from plan net assets increased 6.2 percent over 2004. For the third consecutive year, the driver of this increase is benefit payments. For 2006, benefit payments increased by 6.2 percent compared to 6.0 percent in 2005 and 7.0 percent in 2004. Approximately 2,987 retirees were added to the benefit payroll records in 2006, compared to 1,625 retirees in 2005 and 1,200 retirees in 2004. Refunds of contributions increased by $8,083,751 or 26.5 percent over 2005. This increase is a result of the impact that Hurricanes Katrina and Rita had on our membership. Administrative expenses increased by $1,183,753 or 9.7 percent over fiscal year 2005. Salaries of $7,362,763 were paid in 2006, resulting in an 8.3 percent increase over 2005. This is directly related to staffing previously vacant budgeted positions. The System is 92.5 percent staffed, compared to 89.1 percent for fiscal year 2005. Related benefits of $2,304,792 were paid in 2006, which resulted in a

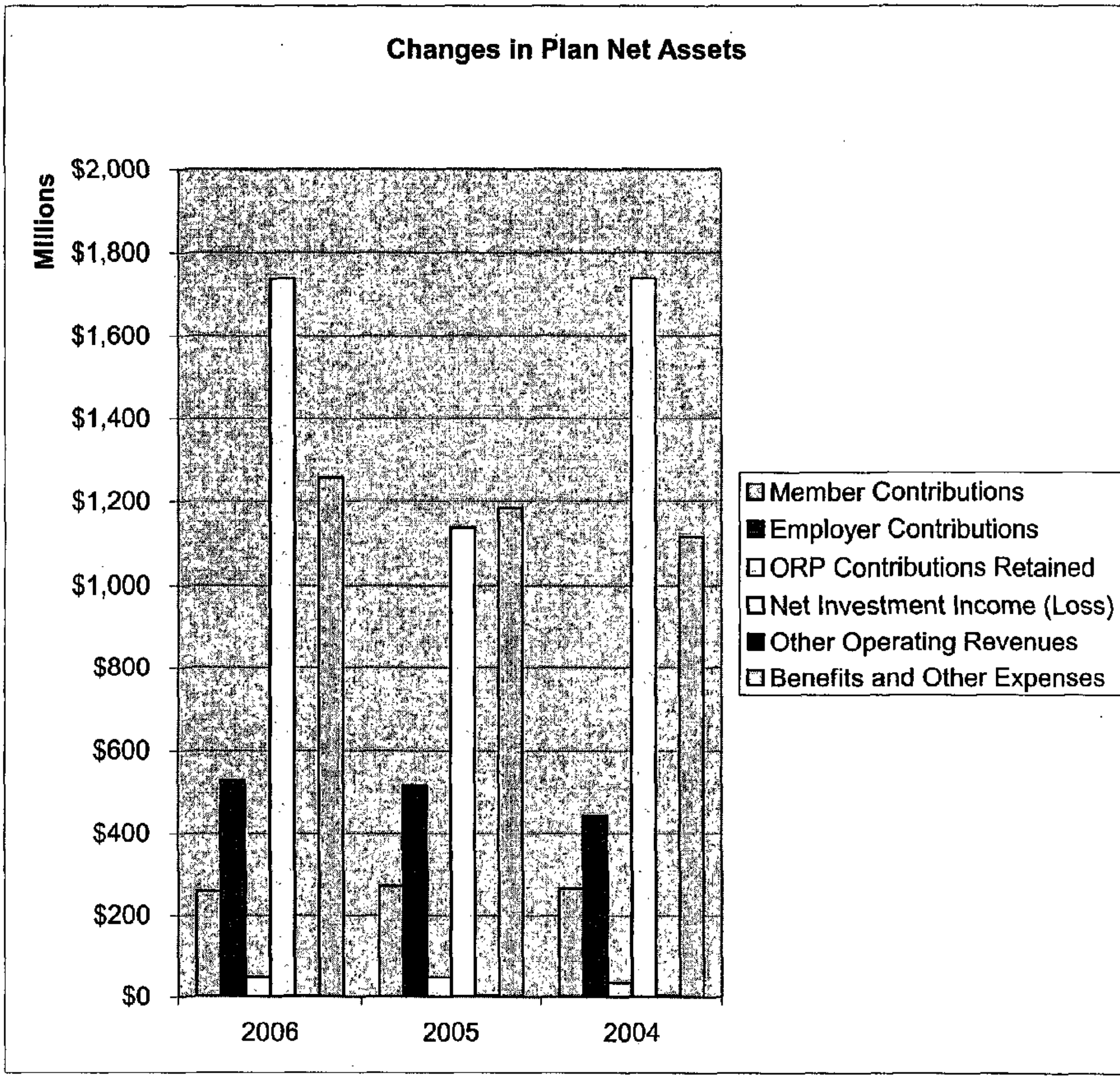
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

28.4 percent increase over fiscal year 2005. This increase is directly related to the employer portion of health insurance premiums.

CONDENSED COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS

	2006	2005	2004
Additions			
Member contributions	$ 258,412,024	$ 270,619,181	$ 264,999,131
Employer contributions	529,983,453	517,815,361	444,104,350
ORP contributions retained	49,293,547	48,754,970	35,244,313
Other operating revenues	3,208,183	3,425,773	3,217,889
Total net investment income	1,737,664,681	1,134,823,923	1,738,551,936
Total additions	2,578,561,888	1,975,439,208	2,486,117,619
Deductions			
Benefits and refunds	1,243,011,102	1,170,268,708	1,102,103,488
Administrative expenses	13,362,286	12,178,533	10,786,450
Other operating expenses	488,341	476,270	508,399
Total deductions	1,256,861,729	1,182,923,511	1,113,398,337
Net increase	1,321,700,159	792,515,697	1,372,719,282
Net assets beginning of year	12,685,912,589	11,893,396,892	10,520,677,610
Net assets end of year	$14,007,612,748	$12,685,912,589	$11,893,396,892

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)



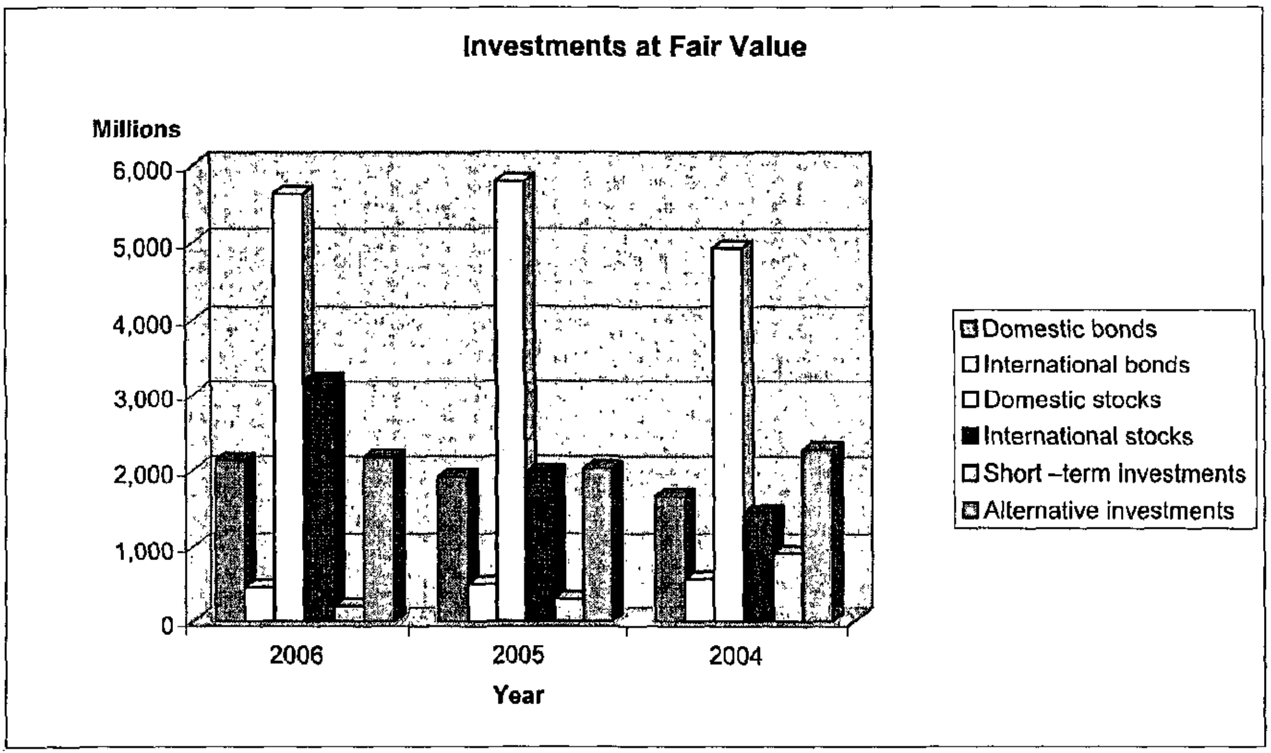
Investments

As the state's largest public retirement system, TRSL is responsible for the prudent management of funds held in trust for the exclusive benefit of our members' pension benefits. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Total investments at June 30, 2006, amounted to $13.8 billion, compared to $12.5 billion at June 30, 2005, which is an increase of $1.3 billion or 10.1 percent. Total investments at June 30, 2005, amounted to $12.5 billion, compared to $11.8 billion at June 30, 2004, which is an increase of approximately 700 million or 5.9 percent. The System experienced a net gain on investments of $1.7 billion at June 30, 2006. Our market rate of return was 14.3 percent. This return ranks TRSL in the 10th percentile in the Mellon Financial Universe (PARis), ahead of 90 percent of other large public pension plans with assets greater than $1.0 billion. The major drivers of this gain were the domestic and international stocks and short-term investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

INVESTMENTS AT FAIR VALUE

	2006	2005	2004
Domestic bonds	$ 2,121,505,657	$ 1,913,039,451	$ 1,659,559,992
International bonds	449,917,634	497,213,792	560,651,839
Domestic stocks	5,630,073,349	5,796,790,444	4,926,745,546
International stocks	3,188,085,062	1,969,333,621	1,454,136,303
Short –term investments	203,642,122	296,950,031	910,719,505
Alternative investments	2,162,400,411	2,017,705,199	2,263,185,124
Total investments	$ 13,755,624,235	$12,491,032,538	$11,774,998,309



FUNDED STATUS

An actuarial valuation of assets and liabilities is performed annually. The System's funded ratio increased to 67.5 percent at June 30, 2006 compared to 64.6 percent as of June 30, 2005 and 63.1 percent as of June 30, 2004. The amount by which TRSL actuarial liabilities exceeded the actuarial assets is $6.3 billion at June 30, 2006, compared to $6.6 billion at June 30, 2005 and 6.7 billion in 2004, thereby decreasing the System's unfunded accrued liability by $400 million since 2004. Act 642 of 2006 provided a one-time appropriation from the State of Louisiana of $26.4 million to accelerate the payoff of the initial unfunded accrued liability. For the year ending June 30, 2006, the net realized actuarial rate of return was 15.65 percent, which was greater than the System's assumed actuarial rate of return of 8.25 percent. This resulted in a net investment experience gain of $862,858,771 million. For the years ending June 30, 2005 and 2004, the net realized actuarial rate of return was 9.87 percent and 9.85 percent respectively.

REQUESTS FOR INFORMATION

Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to Charlene T. Wilson, Chief Financial Officer, Teachers' Retirement System of Louisiana, P. O. Box 94123, Baton Rouge, Louisiana, 70804-9123.

STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2006 AND JUNE 30, 2005

	2006	2005
Assets		
Cash and cash equivalents	$ 59,572,968	$ 24,677,100
Receivables		
Member contributions	48,790,153	48,912,587
Employer contributions	72,017,765	72,934,679
ORP contributions retained	3,498,870	3,375,808
Pending Trades	281,323,928	52,151,909
Accrued interest and dividends	44,597,792	42,821,985
Other receivables	29,173,670	2,473,479
Total receivables	479,402,178	222,670,447
Investments, at fair value		
Domestic bonds	2,121,505,657	1,913,039,451
International bonds	449,917,634	497,213,792
Domestic common and preferred stocks	5,630,073,349	5,796,790,444
International common and preferred stocks	3,188,085,062	1,969,333,621
Domestic short-term investments	178,839,314	256,739,631
International short-term investments	24,802,808	40,210,400
Alternative investments	2,162,400,411	2,017,705,199
Total Investments	13,755,624,235	12,491,032,538
Invested securities lending collateral		
Collateral held under domestic securities lending program	1,860,049,089	1,508,767,585
Collateral held under international securities lending program	308,982,174	233,943,130
Total securities lending collateral	2,169,031,263	1,742,710,715
Building at cost, net of accumulated depreciation of $2,285,205 and $2,153,592 respectively	2,933,836	2,995,632
Equipment, furniture and fixtures, at cost, net of accumulated depreciation of $2,770,819 and $2,458,175 respectively	723,281	823,147
Land	858,390	858,390
Total Assets	16,468,146,151	14,485,767,969
Liabilities		
Accounts payable	10,936,762	9,240,444
Benefits payable	5,118,886	2,077,116
Refunds payable	5,369,804	5,385,301
Pending trades payable	269,051,248	39,836,267
Other liabilities	1,025,440	605,537
Total accounts payable and other liabilities	291,502,140	57,144,665
Securities lending collateral		
Obligations under domestic securities lending program	1,860,049,089	1,508,767,585
Obligations under international securities lending program	308,982,174	233,943,130
Total securities lending collateral	2,169,031,263	1,742,710,715
Total liabilities	2,460,533,403	1,799,855,380
Net assets held in trust for pension benefits	$14,007,612,748	$12,685,912,589

(A schedule of funding progress for the plan is presented on page 56)

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2005

	2006	2005
Additions		
Contributions		
Member contributions	$ 258,412,024	$ 270,619,181
Employer contributions	529,983,453	517,815,361
Total contributions	788,395,477	788,434,542
ORP contributions retained	49,293,547	48,754,970
Investment income:		
From investment activities		
Net appreciation in fair value of domestic investments	809,290,218	663,699,379
Net appreciation in fair value of international investments	584,857,302	197,833,593
Domestic interest	135,047,865	111,850,200
International interest	27,792,233	29,898,190
Domestic dividends	77,813,221	84,579,303
International dividends	68,564,525	31,583,991
Alternative investment income	97,733,026	108,622,676
Commission rebate income	675,608	571,219
Total investment income	1,801,773,998	1,228,638,551
Investment activity expenses:		
International investment expenses	(9,493,180)	(5,710,058)
Alternative investment expenses	(28,474,213)	(64,918,175)
Custodian fees	(761,689)	(760,908)
Performance consultant fees	(1,077,254)	(618,996)
Trade cost analysis fees	(40,000)	(10,000)
Advisor fees	(29,802,772)	(26,020,649)
Total investment expenses	(69,649,108)	(98,038,786)
Net income from investing activities	1,732,124,890	1,130,599,765
From securities lending activities		
Securities lending income	22,168,519	24,508,470
Securities lending expenses:		
Fixed	(11,354,478)	(12,174,022)
Equity	(249,909)	(249,954)
International	(5,024,341)	(7,860,336)
Total securities lending activities expenses	(16,628,728)	(20,284,312)
Net income from securities lending activities	5,539,791	4,224,158
Total net investment income (loss)	1,737,664,681	1,134,823,923
Other operating revenues	3,208,183	3,425,773
Total additions	2,578,561,888	1,975,439,208
Deductions		
Retirement benefits	1,204,472,977	1,139,814,334
Refunds of contributions	38,538,125	30,454,374
Administrative expenses	13,362,286	12,178,533
Depreciation expense	488,341	476,270
Total deductions	1,256,861,729	1,182,923,511
Net increase	1,321,700,159	792,515,697
Net assets held in trust for pension benefits		
Beginning of year	12,685,912,589	11,893,396,892
End of year	$14,007,612,748	$12,685,912,589

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

A. PLAN DESCRIPTION

MEMBERSHIP AND ADMINISTRATION

The System is the administrator of a cost-sharing multiple-employer defined benefit pension plan established and provided for within Title 11, Chapter 2, of the Louisiana Revised Statutes. The System provides pension benefits to employees who meet the legal definition of a "teacher." The System is considered part of the State of Louisiana's financial reporting entity and is included in the State's financial reports as a pension trust fund. The State of Louisiana issues general purpose financial statements, which include the activities in the accompanying financial statements. The accompanying statements present information only as to transactions of the program of the System, as authorized by Louisiana Revised Statutes.

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.

Annual sworn statements on all financial transactions and the actuarial valuation of the System must be furnished to the Legislature at least thirty days before the beginning of each regular session.

The legislative auditor is responsible for the procurement of audits for the public retirement systems and is authorized to contract with a licensed CPA for each audit.

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

At June 30, 2006, and 2005, the number of participating employers was:

	2006	2005
School Boards	68	68
Colleges and Universities	27	26
State Agencies	58	55
Charter Schools	14	7
Other	16	19
Total	183	175

Membership of this plan consisted of the following at June 30, 2006, and 2005, the dates of the latest actuarial valuations:

	2006	2005
Retirees and beneficiaries receiving benefits	57,512	54,525
Deferred Retirement Option Plan participants	4,042	4,375
Terminated vested employees entitled to but not yet receiving benefits	7,039	4,454
Terminated nonvested employees who have not withdrawn contributions	12,749	10,799
Current active employees:		
Vested	54,194	58,107
Nonvested	24,262	26,439
Post Deferred Retirement Option Plan participants	2,891	3,097
Total	162,689	161,796

NOTES TO THE FINANCIAL STATEMENTS (continued)

The System consists of three membership plans that require mandatory enrollment for all employees who meet the following eligibility requirements:

TRSL Regular Plan -	employees that meet the legal definition of a "teacher" in accordance with Louisiana Revised Statutes 11:701(23)(a).
TRSL Plan A -	employees paid with school food service funds in which the parish has withdrawn from Social Security coverage.
TRSL Plan B -	employees paid with school food service funds in which the parish has not withdrawn from Social Security coverage.

These three membership plans are considered one pension plan for financial reporting purposes. All assets accumulated for the payment of benefits may legally be used to pay benefits to any of the plan members or beneficiaries. Teachers' Retirement System of Louisiana provides retirement, disability, and survivor benefits. Plan members become vested after five years of credited service. Members applying for disability retirement must be in active service at the time of filing the application. The formula for annual maximum retirement benefits is 2 or 2.5 percent (Regular Plan), 1 or 3 percent (Plan A), or 2 percent (Plan B) of final average salary for each year of credited service. Final average salary is based upon the member's highest successive thirty-six months of salary. Benefits are paid monthly for life. If a member leaves covered employment prior to vesting or dies prior to establishing eligibility for survivor benefits, accumulated member contributions are refunded. For a more detailed description of plan benefits, refer to the Plan Summary on page 20 of this report.

In 1989, the state legislature established an Optional Retirement Plan (ORP) for academic employees of public institutions of higher education who are eligible for membership in the Teachers' Retirement System of Louisiana. The ORP is a defined contribution pension plan which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participants. Employees in eligible positions of higher education can make an irrevocable election to participate in the ORP rather than the Teachers' Retirement System of Louisiana and purchase annuity contracts for benefits payable at retirement. Louisiana Revised Statutes 11:921 through 11:931 required the Board of Trustees of Teachers' Retirement System of Louisiana to implement the Optional Retirement Plan no later than March 1, 1990, and the public institutions of higher education to implement their Optional Retirement Plan on July 1, 1990. The 1995 Legislative Session amended the ORP to allow ORP participants who assume positions, other than as employees of a public institution of higher education, in positions covered by Teachers' Retirement System of Louisiana, to continue to participate in the ORP. The number of participating employers is currently 112. Current membership in the ORP is 20,523.

In accordance with Louisiana Revised Statutes 11:927(B), the System retains 9.3935 percent of the 15.9 percent ORP employer contributions. The amount transferred to the carriers is the employer's portion of the normal cost contribution that has been determined by the Public Retirement Systems' Actuarial Committee to be 6.5065 percent.

The member's contributions (8 percent) are transferred to the carriers in entirety less 0.1 percent, which has been established by the Board of Trustees to cover the cost of administration and maintenance of the Optional Retirement Plan. The administrative fee may be adjusted by the Board should the cost of administering the plan increase in the future.

The Deferred Retirement Option Plan (DROP) was implemented on July 1, 1992 with the passage of Louisiana Revised Statutes 11:786 by the state legislature. When a member enters the DROP, his status changes from active member to retiree, even though he continues to work at his regular job and draws his regular salary. In the original DROP, participation in the program could not exceed two years; however, the DROP was modified on January 1, 1994, to allow for a three-year period of participation. During the DROP participation period, the retiree's retirement benefits are paid into a special account. The election is irrevocable once participation begins. For members eligible to enter the DROP prior to January 1, 2004, interest will be earned at a rate equal to the actuarial realized rate of return on the System's portfolio for that plan year as certified by the System actuary in his actuarial report, less one-half of one percent after participation ends. For members eligible to enter the DROP on or after January 1, 2004, interest will be earned at the liquid asset money market rate less one quarter of one percent administrative fee. At the time of retirement, the member must choose among available alternatives for the distribution of benefits which have accumulated in the DROP account.

Effective January 1, 1996, the state legislature authorized the Teachers' Retirement System of Louisiana to establish an Initial Lump Sum Benefit (ILSB) program. ILSB is available to members who have not participated in the DROP and who select the maximum benefit, option 2 benefit, option 3 benefit, or option 4 benefit. Thereafter, these members are ineligible to participate in the DROP. The ILSB program provides both a one-time single sum payment of up to 36 months of the maximum regular monthly retirement benefit and a reduced monthly retirement benefit for life. Interest credited and payments from the ILSB account are made in accordance with Louisiana Revised Statutes 11:789(A)(1).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Louisiana Revised Statutes 11:945 established the Excess Benefit Plan as a separate, unfunded, nonqualified plan under the provisions set forth in Louisiana Revised Statutes 11:946 and as a qualified governmental excess benefit arrangement, as defined in Section 415(m)(3) of the United States Internal Revenue Code.

Effective July 1, 1999, an excess benefit participant who is receiving a benefit from this System is entitled to a monthly benefit under this plan in an amount equal to the lesser of either the participant's unrestricted benefit as defined in Louisiana Revised Statutes 11:701, less the maximum benefit, or the amount by which the participant's monthly benefit from this System has been reduced by the limitations of Louisiana Revised Statutes 11:784.1. A benefit payable under this plan is paid in the form and at the time it would have been paid as a monthly pension except for the limitations under Louisiana Revised Statutes 11:784.1 and Section 415 of the United States Internal Revenue Code.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

1. REPORTING ENTITY

The Teachers' Retirement System of Louisiana (the "System") is a component unit of the State of Louisiana. A sixteen-member Board of Trustees (composed of ten active members, two retired members, and four ex-officio members) governs Teachers' Retirement System of Louisiana. The Board of Trustees appoints the director, who is the System's managing officer.

2. BASIS OF ACCOUNTING

Teachers' Retirement System of Louisiana's financial statements are prepared using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. Member and employer contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Purchases and sales of securities are reflected on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on the accrual basis. State General Fund appropriations for supplemental benefits are recognized when drawn from the State Treasury. Administrative costs are funded through investment earnings and are subject to budgetary control by 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.

Teachers' Retirement System of Louisiana has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The System has implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. GASB Statement 34 primarily relates to presentation and disclosure requirements and has no monetary impact on the financial statements. Management's Discussion and Analysis has been included, as a result of the adoption.

3. 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 that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

4. METHOD USED TO VALUE INVESTMENTS

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Fair value is the market value on the last business day of the fiscal year. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rate. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be sold. 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.

Other than investments in U.S. government obligations, the System has no investments of more than five percent of the portfolio invested in any one corporation, nor does the System hold more than five percent of any corporation's outstanding stock.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. PROPERTY AND EQUIPMENT

Land, building, equipment, and furniture are carried at historical cost. Depreciation for the building is computed using the straight-line method based upon a useful life of forty years. Depreciation for office equipment and furniture with a purchase price of at least $1,000 is computed using the straight-line method based upon a useful life of three to ten years. Items with a purchase price of less than $1,000 are expensed in the current year.

6. BUDGETARY ACCOUNTING

Self-generated revenues are budgeted for administrative expenses. State General Funds are appropriated for the purpose of paying supplementary benefits to retirees. The budgetary information for the years ended June 30, 2006 and 2005 includes the original Board of Trustees approved budget and appropriated State General Funds, as well as subsequent amendments as follows:

2006	State General Funds	Self-Generated Revenue	Total
Original approved budget and appropriations	$1,281,350	$41,778,003	$43,059,353
Professional services		4,000,000	4,000,000
	$1,281,350	$45,778,003	$47,059,353

2005	State General Funds	Self-Generated Revenue	Total
Final approved budget and appropriations	$1,752,134	$40,589,497	$42,341,631

7. 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' rate of pay. Upon retirement, unused annual leave in excess of 300 hours and sick leave are credited as earned service in computing retirement benefits. The liability for accrued annual leave of up to 300 hours is included in Other Liabilities.

8. RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation. These reclassifications had no effect on net assets held in trust for pension benefits or the net increase in plan net assets.

C. CONTRIBUTIONS

1. MEMBER CONTRIBUTIONS

Member contributions to the System, based on which plan the member is enrolled, are established by Louisiana Revised Statutes 11:884(A)(1), and rates are established by the Public Retirement Systems' Actuarial Committee. The following groups of employees contributed the percentage of their salaries as shown below for the years ended June 30, 2006, and 2005.

Plan	% of Earned Compensation	
	2006	2005
TRSL Regular Plan	8.0%	8.0%
TRSL Plan A	9.1%	9.1%
TRSL Plan B	5.0%	5.0%

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. EMPLOYER CONTRIBUTIONS

Employer contribution rates are established under Louisiana Revised Statutes 11:885 by the Public Retirement Systems' Actuarial Committee. Rates for the years ended June 30, 2006, and 2005, are as follows:

Plan	% of Earned Compensation	
	2006	2005
TRSL Regular Plan	15.9%	15.5%
TRSL Plan A	15.9%	15.5%
TRSL Plan B	15.9%	15.5%

Employer contributions are collected from the employing agencies throughout the state and from the proceeds of taxes collected in the parishes and remitted by the respective parishes' sheriff's office. .

D. TEACHERS' RETIREMENT SYSTEM OF LOUISIANA (TRSL) EMPLOYEE PENSION BENEFITS

1. COST SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PLAN

The Administration and staff at TRSL are required to participate in the pension plan if they are not already participating in the Louisiana State Employees' Retirement System (LASERS) pension plan or Louisiana School Employees' Retirement System (LSERS) pension plan. The Teachers' Retirement System of Louisiana (TRSL) is a cost sharing multiple-employer defined benefit plan administered by the Teachers' Retirement System of Louisiana. TRSL provides retirement and disability benefits, annual cost-of living adjustments, and death benefits to plan members and beneficiaries. Title 11, Chapter 2, of the Louisiana Revised Statutes assigns the authority to establish and amend benefits provisions to the TRSL Board of Trustees.

Funding Policy. Plan members participating in TRSL are required to contribute 8.0 percent of their annual covered salary and TRSL is required to contribute at an actuarially determined rate. The TRSL rate for the 2005-2006 fiscal year is 15.9 percent. The contribution requirements of plan members and TRSL are established and may be amended by the TRSL Board of Trustees. The contributions paid by TRSL for its administration and staff to the pension plan for the years ending June 30, 2006 and 2005 were $559,001 and $477,518 respectively.

All full-time Teachers' Retirement System of Louisiana employees who do not participate in the Teachers' Retirement System of Louisiana (TRSL) participate in the Louisiana State Employees Retirement System (LASERS) or Louisiana School Employees Retirement System (LSERS). LSERS is a cost sharing multiple-employer defined benefit plan administered by the Louisiana School Employees Retirement System. LSERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to members and beneficiaries. LSERS was established and provided for within Title 11 of the Louisiana Revised Statutes. LSERS issues a publicly available financial analysis summary. That report can be obtained by writing to Louisiana School Employees Retirement System, P.O. Box 44516, Baton Rouge, Louisiana 70804, or by calling 1-800-526-3718.

Funding Policy. Plan members participating in LSERS are required by state statute to contribute 7.50 percent of their gross salary to the Pension Plan to which TRSL adds 18.40 percent contributions as an employer's match. The contribution requirements of plan members and TRSL are established and may be amended by the LSERS' Board of Trustees. TRSL's Statutory and Actual contribution for the years ended June 30, 2006 and 2005 were $10,501 and $5,818 respectively.

2. DEFINED BENEFIT PENSION PLAN

All full time Teachers' Retirement System of Louisiana employees who do not participate in the Teachers' Retirement System of Louisiana (TRSL) participate in the Louisiana State Employees Retirement System (LASERS) or Louisiana School Employees Retirement System (LSERS). LASERS is a single employer defined benefit pension plan administered by the state of Louisiana. LASERS provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries at the discretion of the Louisiana State Legislature. LASERS was established and provided for within Title 11 Chapter 401 of the Louisiana Revised Statutes (LRS). LASERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing to Louisiana State Employees Retirement System, P.O. Box 44213, Baton Rouge, Louisiana 70904-4213, or by calling 1-800-256-3000.

Funding Policy. Plan members participating in LASERS are required by state statute to contribute 7.5 percent of their gross salary to the pension plan to which TRSL adds a 19.1 percent contribution as an employer's match. The contribution requirements of plan members and TRSL are established and may be amended by the LASERS' Board of Trustees. TRSL's Statutory and Actual contributions for the years ending June 30, 2006 and 2005 were $692,917 and $597,971, respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. DEFINED CONTRIBUTION PLAN

Staff of Teachers' Retirement System of Louisiana who are members of Optional Retirement Plan (ORP) before becoming employees of TRSL must remain participants in ORP. The ORP is a defined contribution plan administered by the Teachers' Retirement System of Louisiana. The ORP was created by Louisiana Revised Statute 11:921 and implemented on July 1, 1990. This plan was designed to provide certain academic and unclassified employees of public institutions of higher education an optional method of funding for their retirement. The ORP provides for portability of assets and full and immediate vesting of all contributions submitted on behalf of the participating employees to approved providers. Additional information about the ORP can be found on page 130.

Funding Policy. Plan members are required to contribute 8.0 percent of their annual covered salary and TRSL is required to contribute 15.9 percent of the participating member's covered salary. 7.9 percent of the employees contribution and 6.5065 percent (normal cost) of the employer contributions are transferred to the member's chosen provider. The contributions paid by TRSL for participating TRSL employees for the years ending June 30, 2006 and 2005 were $9,496 and $6,625, respectively.

E. DEPOSITS AND INVESTMENT RISK DISCLOSURES

1. CASH AND CASH EQUIVALENTS

Custodial Credit Risk for Deposits is the risk that in the event of a bank failure, the Systems' deposits may not be returned to them. At June 30, 2006, the carrying amount of the System's cash and cash equivalents totaled $59,572,968, and the bank balance was $10,280,176. Bank deposits of $25,867,372 were uncollateralized. At June 30, 2005, the carrying amount of the System's cash and cash equivalents was $24,677,100, and the bank balance was $8,994,225. Bank deposits of $4,460,766 were uncollateralized.

2. CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Systems' deposits may not be returned to them. For an investment, 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 investment 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 counterparty or by the counterparty's trust department or agent but not in the government's name. Assets held by financial institutions in their capacity as trustee or custodian are not considered to be assets of that institution as a corporate entity for insolvency purposes. These assets are segregated from the corporate assets of the financial institution and are accounted for separately on the institution's general ledger. As a result of this segregation, assets held in a custodial capacity should not be affected if the custodial institution were placed into receivership by its regulators. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risks because their existence is not evidenced by securities that exist in physical or book entry form. Teachers' Retirement System of Louisiana had no custodial credit risk as of June 30, 2006.

3. INVESTMENTS

Louisiana Revised Statutes 11:263 authorized the Board of Trustees to invest under the "Prudent-Man" rule. The Prudent-Man Rule establishes a standard that a fiduciary shall exercise the judgment and care under the circumstances, then prevailing, which 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.

In accordance with Louisiana Revised Statutes 11:267, the System may invest up to 65 percent of its total assets in equities provided that the System invests an amount equal to at least 10 percent of total stock in equity indexing. The index portfolio(s) shall be invested in indices that seek either to replicate or to enhance a particular index. The index portfolio(s) may be invested in a variety of equity capitalization ranges and could be invested in either domestic or international equity.

The System has no investments of any single organization (other than those issued or guaranteed by the U.S. Government) that represents 5 percent or more of the System's net plan assets, nor does the System hold more than 5percent of any corporation's stock. In addition, the Board of Trustees has adopted certain investment policies, objectives, rules and guidelines that are intended to protect the System's assets in real terms such that assets are preserved to provide benefits to participants and their beneficiaries; achieve investment returns sufficient to meet the actuarial assumption necessary to improve the future soundness of the System; and maximize the total rate of return on investments within prudent parameters of risk for a retirement system of similar size and type.

The Board of Trustees' desired investment objective is a long-term compound rate of return on the System's assets and is the greater of:

NOTES TO THE FINANCIAL STATEMENTS (continued)

(a) 3.9% above the CPI-U seasonally adjusted, or
(b) the actuarial rate (currently 8.25%)

During Fiscal Year 2006, the System's investments (including investments bought, sold, and held during the year) appreciated in value by $1,394,147,520 compared to appreciation of $861,532,972 in 2005.

	2006	2005
Increase/(decrease) in fair value of investments held at year end:	$ 230,352,616	$143,238,758
Realized gains/(losses) on investments including currency sold during the year:	1,163,794,904	718,294,214
Total	$1,394,147,520	$861,532,972

The following table presents the fair value of investments by type at June 30, 2006 and 2005, respectively:

Investments - Type	2006 Fair Value	2005 Fair Value
Bonds		
Domestic not on securities loan	$ 1,934,213,678	$ 1,820,198,466
International not on securities loan	291,892,526	304,362,920
Common and preferred stocks		
Domestic not on securities loan	3,957,316,238	4,380,863,844
Domestic on securities loan for securities collateral or letters of credit	34,392,727	46,442,392
International not on securities loan	3,037,127,996	1,928,241,364
Investments held by broker – dealers under securities		
Loans with cash collateral		
Bonds		
Domestic	187,291,979	92,840,985
International	158,025,108	192,850,872
Common Stocks		
Domestic	1,638,364,384	1,369,484,208
International	150,957,066	41,092,257
Domestic money market funds	228,494,294	256,739,631
International money market funds	24,802,807	40,210,400
Real estate investments	534,248,976	362,732,833
Mezzanine financing investments	315,801,414	297,148,668
Private equity investments	1,290,682,985	1,357,823,698
Total	$ 13,755,624,235	$ 12,491,032,538

CREDIT RISKS

The System expects the domestic and international securities investment managers to maintain diversified portfolios by sector and by issuer using the following guidelines:

NOTES TO THE FINANCIAL STATEMENTS (continued)

A. Investments in fixed income securities shall be high quality marketable securities meeting one or more of the following criteria for domestic managers:

(1) All U.S. Treasury, federal agencies, and U.S. Government guaranteed obligations.

(2) Corporate bonds, debentures, notes, asset-backed securities, and equipment trust certificates rated Baa3 or BBB- or higher (investment grade) by Moody's or Standard & Poor's (includes split-rated bonds).

(3) Mortgage securities will be limited to pass-throughs, collateralized mortgage obligations, adjustable rate mortgages, commercial mortgage-backed securities, and other mortgage securities deemed prudent by the investment manager. The use of interest-only strips and principal-only strips may not exceed 10% of the portfolio.

(4) Municipal bonds rated Baa3 or BBB- or higher may not exceed 20% of the market value of the bond portfolio.

(5) Positions in any one issuer of corporate or municipal securities are not to exceed 5% of the market value of the bond portfolio, measured at the time of purchase.

(6) Holdings of individual issues are to be of sufficient size to accommodate easy liquidation.

(7) Private placements (including Rule 144As) may be held, provided that holdings do not exceed 25% of the market value of the bond portfolio. High-yield portfolios and Mezzanine Limited Partnerships are excluded from this restriction.

(8) Debt obligations of foreign governments, corporations, and supranationals issued outside of the U.S. (Eurobonds and non-U.S. dollar bonds) may be held by investment managers.

(9) High yield portfolios are to be invested in debt securities (including convertibles) rated from Ba1 to Caa (Moody's rating) or BB+ to CCC (Standard & Poor's rating) and in unrated securities determined to be of comparable quality by the manager. Unrated securities and securities rated Caa, CCC, or below shall not exceed 20% of the market value of the portfolio.

(10) High yield portfolios are subject to the criteria in paragraphs (5) and (6) with bond rating modified according to paragraph (9).

(11) Investment grade fixed income portfolios are to be invested in fixed income securities pursuant to paragraphs (1), (2), (3), (4), (5) and (6) above, except that all securities, at the time of purchase, shall be investment grade. If a security is downgraded below investment grade, the investment manager will work to seek the best resolution over time to such downgrade.

(12) Investment grade fixed income portfolios shall not invest in mortgage–backed inverse floaters, interest-only, principal-only strips or highly volatile less liquid tranches.

(13) Investment grade fixed income portfolios may invest in debt obligations of foreign governments, corporations, and supranationals issued in the United States and are dollar denominated (Yankee) securities. Aggregate weighting of these securities shall be limited to 10% of the market value of the portfolio.

B. Investments in fixed income securities shall be high quality marketable securities meeting one or more of the following criteria for global fixed income managers:

Items (1) through (7) of the fixed income guidelines for domestic managers will apply with the following additional guidelines:

(1) The debt of countries, foreign and domestic agencies, foreign and domestic corporations, and supranational entities is acceptable for investment. The manager should consider the credit worthiness and the liquidity of a potential security before making an investment. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

(2) Portfolio weightings in countries represented in the Citibank World Government Bond Index, including cash, may range from 0% to 100% of the portfolio.

(3) Portfolio weightings in countries not represented in the Citibank World Government Bond Index, including cash, may not, in aggregate, exceed 40% of the portfolio market value without Board approval. However, practical consideration should be given to liquidity and marketability of issues, particularly within nonmajor and emerging markets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(4) Quality ratings for corporate debt shall be consistent with those stated in item (2) of the Fixed Income Guidelines for Domestic Managers.

(5) Permitted hedge vehicles for currency exposure management are as follows:

(a) Forward Foreign Exchange Contracts
(b) Currency Futures Contracts
(c) Options on Currency Futures Contracts
(d) Options on Spot Currencies

(6) Net short foreign currency positions may not be taken in this portfolio.

C. Investments in common stock securities, including ADRs, shall be high quality, readily marketable securities offering potential for above-average growth. Common stock investments are limited to those meeting all of the following criteria:

(1) Stocks must be listed or traded on a national securities exchange, including the NASDAQ. ADR securities may be traded over the counter. U.S. stocks must be registered with the Securities and Exchange Commission. The use of derivatives (such as Exchange Traded Funds (ETFs), options, warrants, and futures to establish unleveraged long positions in equity markets) is permissible.

(2) No more than 5% of the total outstanding shares of common stock for any one corporation may be held in the System's equity portfolio.

(3) No more than 5% of the cost or market value of the System's equity portfolio (whichever is more) or 15% of the market value of each manager's portfolio may be invested in the common stock of any one corporation.

(4) No more than 20% of stock valued at market of the System's equity portfolio may be held in any one industry category as defined by the custodian.

(5) Convertible securities and covered-option writing, if any, shall be considered as part of the equity portfolio.

(6) Equity managers (growth or value) hired for the small cap investment category are expected to maintain a weighted average market capitalization of the portfolio within minus 50% and plus 100% of the weighted average market capitalization of the Russell 2000 Index (growth or value, respectively).

(7) Equity managers (growth or value) hired for the mid cap investment category are expected to maintain a weighted average market capitalization of the portfolio within plus or minus 50% of the weighted average market capitalization of the Russell Mid Cap Index (growth or value, respectively).

(8) Equity managers hired in the small/mid (SMID) cap investment category are expected to maintain a weighted average market capitalization of the portfolios within plus or minus 50% of the weighted average market capitalization of the Russell 2500 Index.

D. Investments in common stock securities of Developed Markets (EAFE Countries and Canada), shall be high quality, readily marketable securities offering potential for above-average growth. Items (2), (4), and (5) of the Stock Guidelines for Domestic Managers will apply with the following additional guidelines:

(1) Investment managers may invest up to 20% of the market value of the portfolio in the emerging market countries contained in the IFC Investable Index, including up to 5% (of the 20% limit) in emerging market countries not contained in the IFC Investable Index. Managers should consider liquidity and marketability of issues, particularly within non-major and emerging markets, and should also be sensitive to the weight of individual economic sectors of the market within the portfolio. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

(2) Investment managers may invest up to 10% of the portfolio's market value in domestic equity securities. This flexibility should be viewed by the manager as an opportunistic or defensive mechanism rather than a normal position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(3) No single industry group shall constitute more than 25% of the portfolio's market value or its equivalent representation in the EAFE Index; whichever is more, without prior Board approval.

(4) No individual security shall constitute more than 10% of the portfolio's market value.

(5) Cash held by the manager may be in U.S. dollars or foreign currencies of the manager's choice.

(6) Residual currency exposures of the underlying international equity portfolio may be actively managed by the investment manager. If actively managed, the objectives of the foreign exchange exposure management, within the international equity portfolio, are to:

- (a) Add value by increasing total returns and reducing volatility of returns through hedging and cross-hedging activities.
- (b) Avoid currency losses in periods of an appreciating U.S. dollar.

(7) Permitted Equity Investments

- (a) Equity managers are to confine investments to common stocks and securities that are directly convertible or exercisable into common stocks, including ADRs and GDRs.
- (b) Use of derivatives such as options, warrants, and futures to establish unleveraged long positions in equity markets is permissible.
- (c) Currency options contracts may be exchange traded or over-the-counter (OTC) traded in the interbank market. Additional instruments, such as swaps, or other derivatives, may be used if the risk/return trade-off is perceived by the manager to be suitable and competitive with the above-stated hedge vehicles.
- (d) International equity managers may invest up to 10% of the portfolio in Rule 144A securities.

(8) Permitted hedge vehicles for currency exposure management are as follows:

- (a) Forward Foreign Exchange Contracts
- (b) Currency Futures Contracts
- (c) Options on Currency Futures Contracts
- (d) Options on Spot Currencies

(9) Net short foreign currency positions may not be taken in this portfolio.

Credit Risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The System's exposure to credit risk at June 30, 2006 was as follows:

Moody's Rating	Total	Domestic	International
Not Rated	$ 280,445,013	$ 222,704,117	$ 57,740,896
A1	56,530,726	44,843,323	11,687,403
A2	56,579,071	34,801,336	21,777,735
A3	62,041,071	47,329,280	14,711,791
AA1	8,576,056	8,576,056	0
AA2	7,904,750	3,102,436	4,802,314
AA3	81,027,720	78,024,450	3,003,270
AAA	575,816,382	334,038,932	241,777,450
AGY	564,198,249	564,198,249	0
B1	122,634,232	112,030,739	10,603,493
B2	148,411,275	127,901,975	20,509,300
B3	135,729,607	130,290,057	5,439,550
BA1	45,409,885	45,052,243	357,642
BA2	93,709,416	88,917,916	4,791,500
BA3	137,661,147	116,140,521	21,520,626
BAA1	45,094,993	12,019,956	33,075,037
BAA2	41,993,455	39,614,386	2,379,069
BAA3	17,093,349	16,886,973	206,376
CAA1	50,507,075	50,037,075	470,000
CAA2	1,490,000	1,490,000	0
NR	278,657	278,657	0
UST	211,478,444	211,478,444	0
WR	25,900,865	6,033,875	19,866,990
VMIG1	1,380,000	1,380,000	0
VMIG3	3,173,975	3,173,975	0
Total credit risk debt securities	$2,775,065,413	$2,300,344,971	$474,720,442

NOTES TO THE FINANCIAL STATEMENTS (continued)

The System's exposure to credit risk at June 30, 2005 was as follows:

Moody's Rating	Total	Domestic	International
Not Rated	$ 365,144,053	$ 274,953,490	$ 90,190,563
A1	44,096,367	43,985,032	111,335
A2	33,344,227	13,431,810	19,912,417
A3	35,460,684	35,054,017	406,667
AA1	11,051,365	7,840,066	3,211,299
AA2	25,599,644	5,449,688	20,149,956
AA3	54,920,092	51,918,232	3,001,860
AAA	483,206,360	199,887,531	283,318,829
AGY	599,673,167	599,673,167	0
B1	126,346,753	114,787,397	11,559,356
B2	158,095,047	136,680,164	21,414,883
B3	127,996,513	119,859,132	8,137,381
BA1	27,320,821	27,320,821	0
BA2	66,317,175	59,893,200	6,423,975
BA3	146,035,320	134,393,632	11,641,688
BAA1	27,960,107	8,855,760	19,104,347
BAA2	23,131,981	22,555,304	576,677
BAA3	21,319,407	16,006,639	5,312,768
CAA1	37,718,611	37,718,611	0
CAA2	9,388,613	9,388,613	0
CAA3	2,915,113	2,915,113	0
N/A	13,510,722	4,483,126	9,027,596
NR	56,225	56,225	0
P-1	4,922,125	4,922,125	0
UST	233,063,205	233,063,205	0
WR	28,609,577	4,686,982	23,922,595
Total credit risk debt securities	**$2,707,203,274**	**$2,169,779,082**	**$537,424,192**

NOTES TO THE FINANCIAL STATEMENTS (continued)

INTEREST RATE RISK

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment.

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

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**5 - 10**	**More than 10**
U. S. Treasury & Government Agency	$ 600,419,277	$ 79,986,192	$ 20,878,044	$102,997,637	$396,557,404
Collateralized Mortgage Obligations	263,435,623	0	19,328,942	12,400,977	231,705,704
Corporate Bonds	896,797,431	87,728,448	433,069,061	326,915,998	49,083,925
Foreign Corporate Bonds	116,528,828	11,687,403	52,962,707	51,390,718	488,000
Foreign Government Bonds	256,784,193	23,360,491	130,255,830	96,784,402	6,383,471
Foreign Treasuries	76,604,613	17,649,653	21,178,129	37,569,156	207,675
Other	564,495,448	180,062,128	132,887,220	107,624,975	143,921,125
TOTAL	$2,775,065,413	$400,474,315	$810,559,933	$735,683,863	$828,347,304

As of June 30, 2005, the System had the following investments and maturities:

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**5 - 10**	**More than 10**
U. S. Treasury & Government Agency	$ 676,616,833	$ 52,295,264	$ 97,791,972	$ 22,063,315	$504,466,282
Collateralized Mortgage Obligations	107,464,742	0	13,296,510	13,077,792	81,090,440
Corporate Bonds	805,058,598	17,942,662	262,977,920	393,944,685	130,193,331
Foreign Corporate Bonds	105,488,521	2,133,750	30,867,764	71,624,619	862,388
Foreign Government Bonds	358,139,818	22,538,205	174,389,835	134,777,697	26,434,081
Foreign Treasuries	19,366,885	0	0	0	19,366,885
Other	635,067,877	302,545,037	70,944,896	66,832,389	194,745,555
TOTAL	$2,707,203,274	$397,454,918	$650,268,897	$702,320,497	$957,158,962

Teachers' Retirement System of Louisiana, as expressed in its Investment Policy Statement, expects its fixed income managers to approximate the portfolio's duration (a measure of a debt investment's exposure to fair value changes arising from changing interest rates) to its respective benchmarks, i.e. the Lehman Brothers Aggregate for domestic fixed income investments and CITI World Government Bond Index for international fixed income investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOREIGN CURRENCY RISK

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's exposure to foreign currency risk is limited to its investment in foreign marketable securities at June 30, 2006, as follows:

Currency	Percent	Total	Bonds	Stocks	Short-Term Investments
Austrialian Dollar	3.90%	$ 109,877,313	$ 41,447,095	$ 68,430,218	
Brazil Real	0.44%	12,436,664	7,670,842	4,765,822	
British Pound Sterling	16.97%	478,284,098	71,243,567	407,040,531	
Canadian Dollar	3.24%	91,230,478	42,113,145	34,499,667	$14,617,666
Danish Krone	1.04%	29,299,324	15,600,324	13,699,000	
Euro Currency Unit	32.92%	927,995,483	88,272,710	839,722,773	
Hong Kong Dollar	3.77%	106,249,479		106,249,479	
Hungarian Forint	0.03%	872,935		872,935	
Indonesian Rupian	0.19%	5,376,626	5,376,626		
Israeli Shekel	0.05%	1,455,885		1,455,885	
Japanese Yen	21.56%	607,744,609		607,744,609	
Malaysian Ringgit	0.22%	6,119,345	5,617,432	501,913	
Mexican New Peso	1.44%	40,500,630	32,573,074	7,927,556	
New Turkish Lira	0.21%	5,855,853	4,413,147	1,442,706	
New Zealand Dollar	0.34%	9,551,542	9,475,253	76,289	
Norwegian Krone	0.90%	25,409,388		25,409,388	
Philippines Peso	0.03%	747,466		747,466	
Polish Zloty	0.73%	20,607,203	20,607,203		
S African Coom Rand	0.16%	4,680,769	1,018,245	3,662,524	
Singapore Dollar	1.98%	55,798,007	20,325,237	35,472,770	
South Korean Won	1.63%	46,119,825		46,119,825	
Swedish Krona	1.37%	38,698,691	20,193,716	18,504,975	
Swiss Franc	6.43%	181,492,149		181,492,149	
Thailand Baht	0.45%	12,762,166		12,762,166	
Total	100.00%	$2,819,165,928	$385,947,616	$2,418,600,646	$14,617,666

NOTES TO THE FINANCIAL STATEMENTS (continued)

The System's exposure to foreign currency risk is limited to its investment in foreign marketable securities at June 30, 2005 as follows:

Currency	Percent	Total	Bonds	Stocks	Short-Term Investments
Austrialian Dollar	2.88%	$ 61,876,074	$ 32,480,008	$ 29,396,066	
Brazil Real	0.12%	2,650,341		2,650,341	
British Pound Sterling	16.56%	356,379,892	29,801,094	326,578,798	
Canadian Dollar	3.05%	65,713,979	13,167,341	27,218,232	$25,328,406
Danish Krone	0.80%	17,298,910		17,298,910	
Euro Currency Unit	39.40%	847,974,058	228,548,864	619,425,194	
Hong Kong Dollar	3.08%	66,335,162		66,335,162	
Hungarian Forint	0.03%	713,908		713,908	
Israeli Shekel	0.02%	336,424		336,424	
Japanese Yen	18.27%	393,096,333	33,905,666	359,190,667	
Mexican New Peso	2.19%	47,061,352	40,777,419	6,283,933	
New Turkish Lira	0.02%	349,891		349,891	
New Zealand Dollar	0.50%	10,828,041	10,828,041		
Norwegian Krone	0.31%	6,717,321		6,717,321	
Philippines Peso	0.03%	628,592		628,592	
Polish Zloty	0.93%	19,912,417	19,912,417		
S African Coom Rand	0.09%	1,960,702		1,960,702	
Singapore Dollar	2.27%	48,799,883	15,797,600	33,002,283	
South Korean Won	1.26%	27,068,735		27,068,735	
Swedish Krona	1.06%	22,839,706		22,839,706	
Swiss Franc	6.22%	133,937,239		133,937,239	
Thailand Baht	0.91%	19,689,376		8,268,543	11,420,833
Total	100.00%	$2,152,168,336	$425,218,450	$1,690,200,647	$36,749,239

In addition to publicly traded equities, the System has entered into limited partnership agreements with several different strategies that invest in real estate properties, private equity, and mezzanine debt. By making these investments, Teachers' Retirement System of Louisiana is seeking to attain investment returns of 14 to 20 percent over a 10- to 12-year time frame. The total initial active commitments as of June 30, 2006, were $5.1 billion versus $4.7 billion as of June 30, 2005. The total amounts called for funding as of June 30, 2006, were $4.0 billion versus $3.7 billion as of June 30, 2005. The remaining commitments that could be called as of June 30, 2006 were $1.2 billion versus $1.0 billion as of June 30, 2005. Total distributions received by the System from the limited partnerships were $3.5 billion as of June 30, 2006 and $2.1 billion as of June 30, 2005.

F. SECURITIES LENDING TRANSACTIONS

State statutes and Board of Trustees policies permit the System to use the assets of the plan to enter into securities lending transactions-loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The System's domestic managers lend the plan's securities for cash collateral of 100 percent or other securities collateral of 102 percent. The System's global managers lend the plan's securities for cash collateral or other securities collateral of 105 percent. Securities on loan at year-end for cash collateral are presented as uncategorized in the preceding schedule of custodial credit risk. Securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

All securities loans can be terminated on demand by either the System or the borrower. The System cannot pledge or sell securities collateral unless the borrower defaults. The reinvestment of cash collateral is done on an overnight basis or to term. In instances where a loan is for term, the reinvestment of the cash is matched to the maturity of the loan. Such matching existed at year-end. When investing in repurchase

NOTES TO THE FINANCIAL STATEMENTS (continued)

agreements, the collateral received will be a minimum of 102 percent of the cash invested. The System had no repurchase agreements for the years ended June 30, 2006, and 2005, respectively.

G. DERIVATIVES

During fiscal years 2006 and 2005, the System invested in asset/liability based derivatives such as interest-only strips, principal-only strips, collateralized mortgage obligations (forms of mortgage-backed securities), options on futures, forward foreign exchange contracts, and futures. The System reviews market values of all securities on a monthly basis and prices are obtained from recognized pricing sources. Derivative securities are held in part to maximize yields and in part to hedge against a rise in interest rates.

1. INTEREST-ONLY STRIPS AND PRINCIPAL-ONLY STRIPS

Interest-only (IO) and principal-only (PO) strips are transactions that involve the separation of the interest and principal components of a security. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments of mortgages, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced, and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater, and the return on the initial investment would be higher than anticipated.

Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments. If actual prepayment rates are lower than anticipated, the time remaining until the return of principal is increased. The later principal is paid, the lower the present value of the security. Conversely, higher prepayment rates return principal faster causing the PO to appreciate in market value.

2. COLLATERALIZED MORTGAGE OBLIGATIONS

Collateralized mortgage obligations (CMO's) 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 CMO's 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 CMO's may be subject to a reduction in interest payments as a result of prepayments of mortgages which make up the collateral pool. Reduction 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.

3. OPTION ON FUTURES

This is an option contract, the exercise of which results in the holder and writer of the option exchanging futures position. The buyer of a call or put option has unlimited profit potential with the risk limited to the premium paid for the option. The option seller accepts potentially unlimited risk in return for the option premium received. The option seller or buyer can terminate such exposure in a closing transaction. A position is offset by completing the opposite transaction with the same option. The option contracts may also be repurchased or closed by the System, at which time the asset or liability is removed, a realized gain or loss is recognized, and cash is paid on the amount repurchased or received on closing a contract.

4. FORWARD FOREIGN EXCHANGE CONTRACTS

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.

5. FUTURES

A futures contract is an agreement for delayed delivery of securities, currency, commodities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specific price or yield. Upon entering into a futures contract, the System is required to pledge to the broker an amount of cash equal to a certain percentage of the contract amount. The amount is known as the

NOTES TO THE FINANCIAL STATEMENTS (continued)

"initial margin." Subsequent payments, known as "variation margin," are made by the System each day, depending on the daily fluctuations in the value of the underlying security. Such variation margin is recorded as a realized gain or loss for financial statement purposes.

The System buys and sells futures contracts for security hedging. Should exchange rates move unexpectedly, the System may not achieve the anticipated benefits of the futures contract and may realize a loss.

On trade date June 29, 2006, the System purchased a SPX Collar to settle on July 5, 2006 with a notional value of $1,000,000 to mature on October 31, 2006.

H. CONTINGENT LIABILITIES

The System is a litigate in several lawsuits. Management of the System, on the advice of legal counsel, believes that such proceedings and contingencies will not have a material effect on the System.

I. REQUIRED SUPPLEMENTARY INFORMATION

In accordance with GASB 25, required supplementary information is presented on pages 56 through 58.

J. IMPLEMENTATION OF GASB STATEMENT 44

In accordance with GASB 44, the statistical section is presented on pages 114 through 128.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL)[2] (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/01	12,062,136	15,390,417	3,328,281	78.4%	2,582,831	128.9%
06/30/02	12,019,552	16,263,239	4,243,687	73.9%	2,777,667	152.8%
06/30/03	11,826,926	17,196,812	5,369,886	68.8%	2,977,885	180.3%
06/30/04	11,409,404	18,067,486	6,658,082	63.1%	3,017,087	220.7%
06/30/05	12,082,682	18,699,765	6,617,083	64.6%	3,132,169	211.3%
06/30/06	13,088,358	19,390,781	6,302,423	67.5%	2,892,959	217.9%

The total actuarial accrued liability determined using the Projected Unit Credit cost method increased by $691,015,894 from June 30, 2005, to June 30, 2006. There was a net experience gain of $443,111,635.

[1]The Actuarial Value of Assets for GASB reporting includes the Texaco Settlement Fund Assets in the Valuation Assets.
[2]UAAL differs from the UFAL for funding purposes. UFAL for funding purposes excludes Texaco Settlement Fund Assets.

NOTE: Information on this page was provided by SJ Actuarial Associates.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Employer Contributions	
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	$404,060,783	110.2%
2002	421,195,131	104.9%
2003	479,077,364	98.0%
2004	527,899,270	94.4%
2005	555,169,630	105.6%
2006	555,342,400	108.1%

NOTE: Information on this page was provided by SJ Actuarial Associates.

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE SCHEDULES OF TREND INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2006
Actuarial cost method	Projected Unit Credit
Amortization method	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 0.5% at the end of each quinquennial period. Changes in the accrued liabilities occurring after June 30, 1988 are amortized as level dollar amounts. 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 2000 as a level dollar payment to 2029. Amortization periods for changes in liabilities beginning with 2001 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.
Remaining amortization period	Dependent upon the amortization method as described above.
Asset valuation method	Assets are valued on a basis which reflects a four year moving weighted average value between market value and cost value.
Actuarial assumptions:	
Investment rate of return*	8.25%
Projected salary increases*	3.20% → 9.00%
Cost-of-living adjustments	None

*Includes inflation at 3.2%

NOTE: Information on this page was provided by SJ Actuarial Associates.

SUPPORTING SCHEDULES

SCHEDULES OF BUDGETARY EXPENSES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006			2005		
	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE-FAVORABLE (UNFAVORABLE)
Revenues:						
Appropriated:						
State general fund	$ 1,281,350	$ 1,281,350	$ 0	$ 1,752,134	$ 1,742,915	$ (9,219)
Self-generated	45,778,003	45,370,948	(407,055)	40,589,497	39,829,992	(759,505)
Total revenues	47,059,353	46,652,298	(407,055)	42,341,631	41,572,907	(768,724)
Expenses:						
Salaries	9,999,292	9,900,913	98,379	8,915,552	8,847,801	67,751
Travel expenses	277,334	111,354	165,980	306,850	208,902	97,948
Operating Services	2,373,464	2,295,215	78,249	2,529,777	2,316,190	213,587
Supplies	120,650	112,674	7,976	192,886	127,868	65,018
Office acquisitions	19,884	12,814	7,070	17,025	6,922	10,103
Professional services	857,301	857,301	0	820,000	619,801	200,199
Custodian fees	761,689	761,689	0	765,000	760,908	4,092
Performance consultant fees	1,077,254	1,077,254	0	649,000	618,996	30,004
Trade cost analysis fees	40,000	40,000	0	25,000	10,000	15,000
Advisor fees	29,803,192	29,802,772	420	26,025,134	26,020,649	4,485
Other charges – state general fund	1,281,350	1,281,350	0	1,752,134	1,742,915	9,219
Other charges – self-generated	37,200	36,794	406	26,200	19,616	6,584
Interagency transfers	48,096	35,221	12,875	60,984	31,433	29,551
Total expenses	46,696,706	46,395,169	371,355	42,085,542	41,332,001	753,541
Capital Outlays	362,647	326,947	35,700	256,089	240,906	15,183
Total expenses and capital outlays	47,059,353	46,652,298	407,055	42,341,631	41,572,907	768,724
Excess of revenues over expenses and capital outlays	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

NOTE: Custodian, performance consultant, trade cost analysis and advisor fees are listed on the Schedule of Investment Expenses. All other expenses, with the exception of Other Charges-State General Fund, are listed on the Schedule of Administrative Expenses.

SCHEDULES OF ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Salaries:		
Salaries – regular	$ 7,362,763	$ 6,795,782
Salaries – overtime	51,818	97,172
Salaries – termination	83,687	26,423
Other compensation – wages: temporary	1,380	31,571
Other compensation – student labor	78,848	80,410
Other compensation – compensation of board members	17,625	20,925
Related benefits	2,304,792	1,795,518
Total salaries	9,900,913	8,847,801
Travel expenses	111,354	208,902
Operating services:		
Advertising	20,230	3,058
Printing	156,362	169,040
Insurance	76,569	73,038
Maintenance – equipment	355,992	368,632
Rentals – building	515,963	415,100
Rentals – equipment	193,091	217,064
Rentals – off-site storage	134,031	118,602
Dues and subscriptions	60,007	71,692
Telephone	163,266	175,287
Postage	470,198	547,393
Bank service charges	117,956	116,241
Mail services	28,117	35,100
Miscellaneous	3,433	5,943
Total operating services	2,295,215	2,316,190
Supplies	112,674	127,868
Office acquisitions	12,814	6,922
Professional services:		
Accounting and auditing	34,200	60,775
Management and consulting	6,248	128,781
Graphic web design	21,600	21,620
Cost effective management	30,000	30,000
Legal	323,257	56,365
Medical	38,454	31,945
Professional training	10,695	10,695
Professional election expense	56,282	42,652
SSA Consultants	23,500	0
Actuarial	201,598	153,382
Disaster testing	68,873	41,413
Professional travel	0	2,544
Investigative services	37,778	34,782
Design/annual report	727	603
Deaf interpreter services	4,089	4,244
Total professional services	857,301	619,801
Other charges:		
Educational expense	21,767	19,094
System condolence fund	68	203
Recruitment expense	14,929	298
Education supplies	30	21
Total other charges	36,794	19,616
Interagency transfers:		
Secretary of State – microfilm	8,167	7,063
Department of Civil Service	26,274	22,798
Office of Information Service	390	1,144
Bureau of Vital Statistics	390	428
Total interagency transfers	35,221	31,433
Total administrative expenses	$13,362,286	$12,178,533

SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Investment activities expenses:		
International investment expenses	$ 9,493,180	$ 5,710,058
Alternative investment expenses*	28,474,213	64,918,175
Global custodian fees	761,689	760,908
Performance consultant fees	1,077,254	618,996
Trade cost analysis fees	40,000	10,000
Advisor fees	29,802,772	26,020,649
Total investment activities expenses	$69,649,108	$98,038,786
Securities lending activities expenses:		
Fixed	$11,354,477	$12,174,022
Equity	249,909	249,954
International	5,024,341	7,860,336
Total securities lending activities expenses	$16,628,727	$20,284,312

* TRSL's Alternative Investment Expenses include management fees charged by the general partners. Some investors treat these management fees as a part of the cost of the investment, while others treat management fees as an expense. The industry accepts both methods thereby making the comparison of alternative investment expenses among investors impossible.

SCHEDULES 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**
Sheryl R. Abshire	17	$ 1,275	22	$ 1,650
Anne H. Baker	24	1,800	26	1,950
William C. Baker, Ed.D.	24	1,800	25	1,875
Jerry J. Baudin, Ph.D.	24	1,800	25	1,875
Eula M. Beckwith	22	1,650	22	1,650
Sarah F. Cox	22	1,650	26	1,950
Clyde F. Hamner	11	825	14	1,050
Joyce P. Haynes	24	1,800	22	1,650
Lawrence J. Moody, Jr.	17	1,275	25	1,875
Syble T. Jones, RD, LDN, replaced by Bonnie H. Brooks	12	900	26	1,950
Bonnie H. Brooks, replaced Sybil T. Jones	12	900	0	0
Charles P. Bujol, replaced by William Britt	9	675	26	1,950
William Britt, replaced Charles P. Bujol	4	300	0	0
Sheryl B. Sherlock, replaced by Irvin R.West, Jr.	0	0	9	675
Irvin R.West, Jr., replaced Sheryl B. Sherlock	13	975	11	825
Total compensation		$17,625		$20,925

SCHEDULES OF BUILDING MAINTENANCE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Building maintenance expenses:		
Property management services	$ 12,975	$ 11,700
Payroll expenses	56,591	66,488
Heating and air	52,696	37,889
Landscape maintenance	15,157	21,826
Elevator maintenance	1,663	2,061
Water and sewerage	6,000	5,131
Utilities	182,369	125,154
Telephone	1,738	4,731
Insurance	12,217	10,126
Pest control	777	559
Janitorial services	34,874	33,467
Waste systems	3,662	2,270
Fire protection	2,941	985
General repairs	24,495	21,050
Plumbing expenses	1,805	977
Electrical expenses	2,093	16,685
Window washing	23	1,934
Miscellaneous operating services	3,710	8,795
Security system	15,139	10,135
Janitorial supplies	7	534
Architect/engineering services/legal	4,417	13,355
Total building maintenance expenses	$435,349	$395,852
Capital outlays	$ 69,818	$ 0

These costs are included in Operating Services Expenses, Rentals - Building, on the Schedules of Administrative Expenses.

SCHEDULES OF PAYMENTS TO NON-INVESTMENT RELATED CONSULTANTS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Accounting and auditing consultants	$ 34,200	$ 60,775
Auditor		
Hawthorn, Waymouth & Carroll, L.L.P.		
Management and consulting	207,230	168,156
Consultants		
Platinum		
Modiphy, Inc.		
Voice Retrieval		
Cost Effective Measurements		
Mail Guard System – Disaster Testing		
Sungard System – Disaster Testing		
Miscellaneous		
Legal	365,124	152,840
Legal Consultant		
Jones, Day, Reavis and Pogue		
Law Offices of Randy P. Zinna		
Postlewaite & Netterville		
Long Law Firm		
Avant & Falcon		
Investigative Services		
Pension Benefit Information		
Miscellaneous		
Medical	38,454	31,945
Medical Examiners		
Richard Burroughs, M.D.		
Anthony Ioppolo, M.D.		
W. J. Laughlin, M.D.		
H. Guy Riche', Jr., M.D.		
Lawrence D. Wade, M.D.		
Miscellaneous		
Professional Training	10,695	10,695
Computer Training		
Element K		
Actuarial	201,598	144,264
Actuary		
Hall Actuarial Associates		
SJ Actuarial Services		
Gabriel, Roder & Smith		
Total	$857,301	$568,675

A summary schedule of commissions paid to brokers is shown on pages 97 through 98.

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INVESTMENT SECTION

TRSL
Teachers' Retirement System of Louisiana

www.trsl.org
225.925.6446
Post Office Box 94123
Baton Rouge LA 70804-9123

September 29, 2006

The Board of Trustees
Teachers' Retirement System of Louisiana
8401 United Plaza Blvd.
Baton Rouge, LA 70809

The Teachers' Retirement System of Louisiana (System) completed the fiscal year ended June 30, 2006 with a 14.3% return on total assets. This one-year return ranks in the 10th percentile in the Mellon Financial Universe (PARis), ahead of 90% of other public pension plans with assets greater than $1.0 billion. Over the same period, alterative investments (real estate, private equity and mezzanine debt) had a return of 32.3% while publicly traded assets (stocks and bonds) had a return of 11.7%. Total fund results over the past five- and ten-year periods are 7.4% and 9.0%, which rank in the 42nd and 34th percentile, respectively. For the past ten years, the System's return of 9.0% exceeded the actuarial rate of 8.25% by 0.75% per year. This return is 4.7% higher than its inflationary benchmark (CPI + 3.9%). The performance results were calculated using the guidelines approved by the Chartered Financial Analyst Institute.

The benchmark for the alternative investment portfolio is the S&P 500 Index plus 4%. This portfolio has generated excellent returns of 32.3%, 13.7%, and 11.3% for the past one, five, and seven years. The alternative portfolio exceeded its benchmark by 19.7%, 7.2%, and 6.8% for the last one, five, and seven years.

The System's equity portfolio consists of domestic and international securities. The domestic equity portfolio had returns of 9.5%, 3.8%, and 9.8% for the past one, five, and ten years, which exceeded the S&P 500 Index by 0.9%, 1.3%, and 1.4%, respectively. The portfolio continues to be well diversified across value and growth styles and across large-, mid-, and small-capitalization stocks. The international equity portfolio exceeded the MSCI EAFE Index by 1.2% and 1.5% over one and ten years but lagged by 0.4%, for the past five years, with returns of 27.7%, 9.6%, and 7.9%, respectively.

The System's fixed income portfolio has two components, domestic and global bonds. The domestic portfolio consists of investment grade bonds, mortgaged-backed securities, and high yield securities. The portfolio has generated returns of 1.8%, 5.8%, and 6.0% over the past one, five, and ten years. The portfolio

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exceeded the Lehman Brothers Aggregate Index by 2.6% and 0.9% for the past one and five years and lagged the index by 0.2% for ten years. The global portfolio had returns of 0.6%, 11.7%, and 6.8% which exceeded the Citigroup World Government Bond Index by 1.0%, 3.2%, and 1.4% for the past one, five, and ten years, respectively.

In summary, a total fund return of 14.3% was very good in a difficult investment environment. Total assets in trust grew by $1.3 billion, from $12.7 billion to $14.0 billion, while paying out $405 million more in benefits than the System received in contributions.

Sincerely,

Dan H. Bryant

Dan H. Bryant
Chief Investment Officer

DHB/mlv

INVESTMENT POLICY

STATEMENT OF SYSTEM OBJECTIVES

Financial objectives of the Teachers' Retirement System of Louisiana (TRSL) have been established in conjunction with a comprehensive review of the current and projected financial requirements of the System.

The Board's investment objectives are to:

(1) Protect the System's assets in real terms such that assets are preserved to provide benefits to participants and their beneficiaries. Real terms shall be a measurement in current dollars that discounts inflationary increases in value as measured by the Consumer Price Index (CPI-U) seasonally adjusted.

(2) Achieve investment returns sufficient to meet the actuarial assumption necessary to improve the future soundness of the System. This is defined as an investment return (current income plus realized and nonrealized gains and losses) that is greater than the actuarial assumption.

(3) Maximize the total rate of return on investments within prudent parameters of risk for a retirement system of similar size and type.

While there can be no complete assurance that these objectives will be realized, this investment policy is believed to provide a sound basis to successfully achieve System objectives.

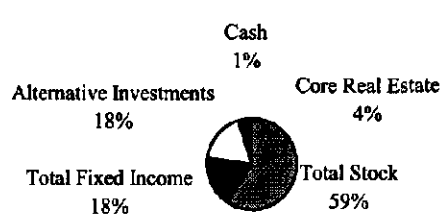
The desired investment objective is a long-term compound rate of return on the System's assets of 3.9% above the CPI-U seasonally adjusted or the actuarial rate (currently 8.25%), which ever is higher. The System's Board of Trustees realizes that market performance varies and that this return objective may not be meaningful during some periods. Accordingly, relative performance benchmarks for investment managers are set forth in the Control Procedures section of this document.

ASSET ALLOCATION GUIDELINES

It shall be the policy of the System to invest the assets in accordance with the minimum and maximum range for each asset category as stated below:

ASSET CATEGORY	MINIMUM	TARGET	MAXIMUM
Domestic Stock***	33%	39%	45%
International Stock	14%	20%	26%
Total Stock*	47%	59%	65%
Investment Grade Bonds (Core & Mortgages)	4%	6%	10%
Global Bonds	3%	6%	9%
High Yield	4%	6%	8%
Total Fixed Income	11%	18%	24%
Core Real Estate	2%	4%	6%
Mezzanine Debt	0%	2%	4%
Opportunistic Real Estate	2%	5%	7%
Private Equity	5%	10%	15%
Hedge Funds – Milti-Strategy	0%	1%	3%
Total Alternative (Illiquid)**	7%	18%	24%
Cash and Equivalents	0%	1%	5%
Total	N/A	100%	N/A

Asset Allocation Guidelines



INVESTMENT POLICY (continued)

* A 10% allocation to indexed equities is mandated by the Legislature (LSA.R.S. 11:267). This legislation also sets the maximum allocation to equity at 65%.

** To determine the asset allocation for this asset category, only the actual amount invested is applicable. However, in no case shall total alternative investment exceed the maximum allowed at the time the investment is made without Board approval.

*** The allocation objective of the U.S. Stock composite is the Russell 3000, which can be segregated into the following style targets and ranges:

EQUITY STYLE	MINIMUM	TARGET	MAXIMUM
Large Cap Growth	29%	33%	37%
Large Cap Value	29%	33%	37%
Mid Cap Growth	2%	4%	6%
Mid Cap Value	2%	4%	6%
Small Cap Growth	2%	4%	6%
Small Cap Value	2%	4%	6%
SMID Core	15%	18%	21%

Note: This asset allocation was adopted March 1, 2005. It is anticipated that it will take 18 to 24 months to implement the new policy. In the interim, we may be temporarily outside our policy ranges.

The asset allocation ranges established by this investment policy represent a long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence from this allocation should be of a short-term nature. The director is responsible for ensuring that any such divergence is as brief as possible.

Divergence in the portfolio cash reserves is of particular concern. It is the Board's policy that equity manager portfolios be fully invested and that cash reserves, over time, should not exceed their 5% target. Managers have the discretion to deviate from the cash reserve target but will be accountable to the Board for justifying such action. Managers will be evaluated on the performance of the total portfolio, including cash.

It is expected that all assets of the System will be managed in accordance with the Louisiana Revised Statutes. It is the policy of the Board, provided all investment factors are equal and within the limits of prudence, that investments in Louisiana securities are encouraged.

In accordance with the Louisiana Revised Statutes (LSA R.S. 11:267), the System will invest at least 10% of total stock in equity indexing, not to exceed 65%. The index portfolio(s) shall be invested in indices that seek either to replicate or to enhance a particular index. The index portfolio(s) may be invested in a variety of equity capitalization ranges and could be invested in either domestic or international equity.

In addition to direct investment in individual securities, mutual funds and pooled asset portfolios are acceptable investment vehicles.

REBALANCING

TRSL's Chief Investment Officer will review the asset allocation monthly to determine if each asset class is within the range established by Board Policy. Any out-of-range condition and rebalancing recommendation will be reported to the Board at the Board Investment Committee meeting. The Chief Investment Officer will consider market conditions and transaction costs, as well as any other relevant factors, when determining the most cost-effective process to rebalance the portfolio. The Chief Investment Officer will direct staff and investment managers to transfer funds to rebalance the asset allocation, as necessary.

INVESTMENT POLICY (continued)

PORTFOLIO GUIDELINES

FIXED INCOME GUIDELINES FOR DOMESTIC MANAGERS

Investments in fixed income securities shall be high quality marketable securities meeting one or more of the following criteria:

(1) All U.S. Treasury, federal agencies, and U.S. Government guaranteed obligations.

(2) Corporate bonds, debentures, notes, asset-backed securities, and equipment trust certificates rated Baa3 or BBB- or higher (investment grade) by Moody's or Standard & Poor's (includes split-rated bonds).

(3) Mortgage securities portfolios will be limited to: pass-throughs, collateralized mortgage obligations, adjustable rate mortgages, commercial mortgage-backed securities, and other mortgage securities deemed prudent by the investment manager. The use of interest-only strips and principal-only strips may not exceed 10% of the portfolio.

(4) Municipal bonds rated Baa3 or BBB- or higher may not exceed 20% of the market value of the bond portfolio.

(5) Positions in any one issuer of corporate or municipal securities are not to exceed 5% of the market value of the bond portfolio, measured at the time of purchase.

(6) Holdings of individual issues are to be of sufficient size to accommodate easy liquidation.

(7) Private placements (including Rule 144As) may be held, provided that holdings do not exceed 25% of the market value of the bond portfolio. High-yield portfolios and Mezzanine Limited Partnerships are excluded from this restriction.

(8) Debt obligations of foreign governments, corporations, and supranationals issued outside of the U.S. (Eurobonds and non-U.S. dollar bonds) may be held by investment managers.

(9) High yield portfolios are to be invested in debt securities (including convertibles) rated from Ba1 to Caa (Moody's rating) or BB+ to CCC (Standard & Poor's rating) and in unrated securities determined to be of comparable quality by the manager. Unrated securities and securities rated Caa, CCC, or below shall not exceed 20% of the market value of the portfolio.

(10) High yield portfolios are subject to the criteria in paragraphs (5) and (6) with bond rating modified according to paragraph (9).

(11) Investment grade fixed income (core) portfolios are to be invested in fixed income securities pursuant to paragraphs (1), (2), (3), (4), (5) and (6) above, except that all securities, at the time of purchase, shall be investment grade. If a security is downgraded below investment grade, the investment manager will work to seek the best resolution over time to such downgrade.

(12) Investment grade fixed income core portfolios shall not invest in mortgage–backed inverse floaters, interest-only, principal-only strips or highly volatile less liquid tranches.

(13) Investment grade fixed income core portfolios may invest in debt obligations of foreign governments, corporations and supranationals issued in the United States and are dollar denominated (Yankee) securities. Aggregate weighting of these securities shall be limited to 10% of the market value of the portfolio.

FIXED INCOME GUIDELINES FOR APPROVED GLOBAL FIXED INCOME MANAGER(S)

Items (1) through (7) of the Fixed Income Guidelines for Domestic Managers will apply with the following additional guidelines.

(1) The debt of countries, foreign and domestic agencies, foreign and domestic corporations, and supranational entities are acceptable for investment. The manager should consider the creditworthiness and the liquidity of a potential security before making an investment. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

(2) Portfolio weightings in countries represented in the Citibank World Government Bond Index, including cash, may range from 0% to 100% of the portfolio.

INVESTMENT POLICY (continued)

(3) Portfolio weightings in countries not represented in the Citibank World Government Bond Index, including cash, may not, in aggregate, exceed 40% of the portfolio market value without Board approval. However, practical consideration should be given to liquidity and marketability of issues, particularly within nonmajor and emerging markets.

(4) Quality ratings for corporate debt shall be consistent with those stated in item (2) of the Fixed Income Guidelines for Domestic Managers.

(5) Permitted hedge vehicles for currency exposure management are as follows:

(a) Forward Foreign Exchange Contracts
(b) Currency Futures Contracts
(c) Options on Currency Futures Contracts
(d) Options on Spot Currencies

(6) Net short foreign currency positions may not be taken in this portfolio.

STOCK GUIDELINES FOR DOMESTIC MANAGER(S)

Common stock securities, including ADRs, shall be high quality, readily marketable securities offering potential for above-average growth. Common stock investments are limited to those meeting all of the following criteria:

(1) Stocks must be listed or traded on a national securities exchange, including the NASDAQ. ADR securities may be traded over the counter. U.S. stocks must be registered with the Securities and Exchange Commission. The use of derivatives (such as Exchange Traded Funds (ETFs), options, warrants, and futures to establish unleveraged long positions in equity markets) is permissible.

(2) No more than 5% of the total outstanding shares of common stock for any one corporation may be held in the System's equity portfolio.

(3) No more than 5% of the cost or market value of the System's equity portfolio (whichever is more) or 15% of the market value of each manager's portfolio may be invested in the common stock of any one corporation.

(4) No more than 20% of stock valued at market of the System's equity portfolio may be held in any one industry category as defined by the custodian.

(5) Convertible securities and covered-option writing, if any, shall be considered as part of the equity portfolio.

(6) Equity managers (growth or value) hired for the small cap investment category are expected to maintain a weighted average market capitalization of the portfolio within minus 50% and plus 100% of the weighted average market capitalization of the **Russell 2000 Index** (growth or value, respectively).

(7) Equity managers (growth or value) hired for the mid cap investment category are expected to maintain a weighted average market capitalization of the portfolio within plus or minus 50% of the weighted average market capitalization of the **Russell Mid Cap Index** (growth or value, respectively).

(8) Equity managers hired in the small/mid (SMID) cap investment category are expected to maintain a weighted average market capitalization of the portfolios within plus or minus 50% of the weighted average market capitalization of the **Russell 2500 Index.**

STOCK GUIDELINES FOR APPROVED INTERNATIONAL EQUITY MANAGER(S)

Common stock securities of Developed Markets (EAFE Countries and Canada), shall be high quality, readily marketable securities offering potential for above-average growth. Items (2), (4), and (5) of the Stock Guidelines for Domestic Managers will apply with the following additional guidelines.

(1) Investment managers may invest up to 20% of the market value of the portfolio in the emerging market countries contained in the IFC Investable Index, including up to 5% (of the 20% limit) in emerging market countries not contained in the IFC Investable index. Managers should consider liquidity and marketability of issues, particularly within non-major and emerging markets, and should also be sensitive to the weight of individual economic sectors of the market within the portfolio. The manager should also review whether the custodian has a subcustodian within a particular country before considering an investment.

INVESTMENT POLICY (continued)

(2) Investment managers may invest up to 10% of the portfolio's market value in domestic equity securities. This flexibility should be viewed by the manager as an opportunistic or defensive mechanism rather than a normal position.

(3) No single industry group shall constitute more than 25% of the portfolio's market value or its equivalent representation in the EAFE Index; whichever is more, without prior Board approval.

(4) No individual security shall constitute more than 10% of the portfolio's market value.

(5) Cash held by the manager may be in U.S. dollars or foreign currencies of the manager's choice.

(6) Residual currency exposures of the underlying international equity portfolio may be actively managed by the investment manager. If actively managed, the objectives of the foreign exchange exposure management, within the international equity portfolio, are to:

(a) Add value by increasing total returns and reducing volatility of returns through hedging and cross-hedging activities.
(b) Avoid currency losses in periods of an appreciating U.S. dollar.

(7) Permitted Equity Investments

(a) Equity managers are to confine investments to common stocks and securities that are directly convertible or exercisable into common stocks, including ADR's and GDR's.
(b) Use of derivatives such as options, warrants, and futures to establish unleveraged long positions in equity markets is permissible.
(c) Currency options contracts may be exchange traded or over-the-counter (OTC) traded in the interbank market. Additional instruments, such as swaps, or other derivatives, may be used if the risk/return trade-off is perceived by the manager to be suitable and competitive with the above-stated hedge vehicles.
(d) International equity managers may invest up to 10% of the portfolio in Rule 144A securities.

(8) Permitted hedge vehicles for currency exposure management are as follows:

(a) Forward Foreign Exchange Contracts
(b) Currency Futures Contracts
(c) Options on Currency Futures Contracts
(d) Options on Spot Currencies

(9) Net short foreign currency positions may not be taken in this portfolio

CORE REAL ESTATE

Core real estate minimizes risk under both an "asset definition" and a "portfolio definition." Under the "asset definition" means substantially rented existing properties, which have an orderly lease expiration schedule, are of high quality, are from among the four basic property types (office, industrial, retail and multifamily housing), are functional and well maintained without excessive capital reinvestment required, and carry no more than 25% debt.

Under the "portfolio definition" means a mix of at least three of the four main property types, geographic diversification, tenant/industry diversification and lease rollovers staggered across an entire investment portfolio in a fairly balanced pattern. Such a definition can be satisfied in a substantial portfolio wholly owned by a large institution, or in a commingled portfolio -- that includes multiple investors.

(1) Core Real Estate means to buy, hold and operate real estate that offers high current income with lower volatility and lower expected returns than opportunistic real estate

(2) Core Real Estate is not necessarily looking for a discount to fair market value; it is looking for long-term anchor tenants to lease the property

(3) Core Real Estate can be provided by a separately managed account, commingled fund, partnership, direct ownership or Exchange Traded Funds

(4) Core Real Estate can be in warehouses, industrial, apartments, offices, storage, land development, single family homes, parking garages and hotels

INVESTMENT POLICY (continued)

(5) Core Real Estate offers stable return patterns and reasonable risk levels except when market disruption occurs (real estate glut, overvaluation, or a dramatic change in interest rates).

MANAGER CASH GUIDELINES

The System expects the manager's cash position to be kept to a minimum and adhere to the following:

(1) Equity manager's cash shall not constitute more than 5% of the market value of the manager's portfolio without prior Board approval.

(2) The manager's cash will be swept daily into a STIF account by the custodian.

(3) STIF deposit accounts at foreign subcustodian banks are allowed only for the global and international managers.

RESTRICTED INVESTMENTS

Categories of investments that are not eligible include:

(1) Use of margin or leverage (except limited partnerships and core real estate)

(2) Short sales of securities

(3) Investments in commodities or commodity contracts

(4) Direct loans or extending lines of credit to any interested party

(5) Letter stock

(6) Unregistered securities (except 144A securities and limited partnerships).

Hedge funds and market protection investment strategies will not be subject to the Restricted Investments listed above.

With Board approval, global managers may use financial-futures contracts and options thereon, currency-forward contracts and options thereon, and options on physical securities and currencies. Also for these managers, initial and variation margin on financial futures and related options are allowed.

DIVERSIFICATION

Investments shall be diversified with the intent to minimize the risk of large losses to the System. The total portfolio will be constructed and maintained to provide prudent diversification through equity, fixed income, real estate, and alternative investments.

VOLATILITY

Consistent with the desire for adequate diversification, it is expected that the volatility of the System's total portfolio will be similar to that of the market. It is expected that the volatility of the total portfolio, in aggregate, will be reasonably close to the volatility of a commitment-weighted composite of market indices (e.g., Russell 3000 Index for stocks and Lehman Brothers Aggregate Bond Index for bonds, etc.).

LIQUIDITY NEEDS

It is expected that contributions will exceed benefit payments for the foreseeable future. Therefore, staff will maintain an allocation to cash to meet benefit payments. External managers should maintain cash levels that are within their investment guidelines. (See Manager Cash Guidelines)

PROXY VOTING

It shall be the policy of the System to allow the investment manager to vote all proxies. Nevertheless, each investment manager is required to advise the Board on any issues that should require special consideration. Staff will report to the Board annually summarizing the proxies that were voted by the investment managers.

INVESTMENT POLICY (continued)

EXECUTION OF SECURITIES TRADES

The System expects the purchase and sale of securities to be directed through brokerage firms offering the best price and execution. Small-cap, international, fixed income, and index investment managers are not required to use the System's internal trading desk. However, they are expected to place orders through Louisiana brokerage firms whenever they can provide total transaction costs equivalent to, or below, the lowest non-Louisiana brokerage firm.

Small-cap, international, fixed income, and index investment managers may not place trade orders through their own firm, or through affiliated or subsidiary companies with related ownership, in whole or part, to the investment manager without prior written approval. If and when such approval is granted, all trades shall comply with the best price and execution expectations. These trades must be identified in the manager's monthly trading report for review by TRSL.

Large- and mid-cap investment advisors must place trade orders through the System's internal trading desk. This desk is charged with effectively executing trades using a pool of brokers that can provide the wide range of services required by the System. The internal trading desk is also charged with managing minority broker, Louisiana broker, and recapture broker programs.

Act 788 of 2003 mandates that TRSL direct 10% of trades (equity and fixed income) to brokers that are incorporated in Louisiana. Another 10% must be directed to brokers that have an office in Louisiana but are incorporated outside of Louisiana.

ALTERNATIVE INVESTMENT GUIDELINES

Included in the Investment Policy of the Teachers' Retirement System of Louisiana (the "System") dated October 6, 2003, is the Alternative Investment Guidelines (the "Guidelines") (REV. 8/7/01). The Guidelines indicate that the System's Board of Trustees (the "Board") may consider the following investment vehicles.

(a) Value-add/Opportunistic Real Estate
(b) Private Equity
(c) Mezzanine Debt Financing
(d) Options
(e) Derivatives (Futures, Swaps, etc.)
(f) Hedge Funds - Multi-Strategy

The Guidelines provide further that the Board may adopt additional objectives, rules and guidelines for these investment vehicles, all of which become a part of the Guidelines upon approval of the Board. The following document sets forth enhanced guidelines that provide a general framework for selecting, building, and managing the System's investments in Hedge Funds – Multi-Strategy, Private Equity (including Mezzanine) and Value-add/Opportunistic Real Estate, which are referred to herein as "Alternative Investments." The only exception to this document will be the policy approved by the Board relating to Act 788 of 2003, which will govern investments in venture capital, emerging businesses, and money managers in Louisiana. Should the Board determine that investments in Options and/or Derivatives are appropriate for the System, a separate set of enhanced guidelines would be adopted for those types of investments as well. If the Board approves Options in the form of a collar (buying a put at or below current market and selling a call above current market), then no further guidelines are required.

I. OBJECTIVES

1. Return

On a relative basis, the return objective for Alternative Investments is 400 bps over the S&P 500 index net of fees, expenses and carried interest. On an absolute basis, the return is assumed to be 14-20%.

The Board understands that, for a given partnership, return can only be reliably measured over the life of the partnership (typically 10+ years). Private equity funds are not typically marked to market and the valuation methodology used by one general partner may differ from the valuation methodology used by another. In addition, the IRR performance in the first few years of a partnership's life is routinely negative due to the J-curve effect. During this period, partnerships are actively making investments and drawing management fees, which results in negative capital account balances.

INVESTMENT POLICY (continued)

2. Risk

The Board understands that Alternative Investments are illiquid and will have a long-term holding period. When used with publicly traded assets, the asset class helps diversification and reduces risk at the total fund level. Nonetheless, the Board expects that the Consultant will take all appropriate measures to reduce risks that are not adequately compensated for by expected return. Such measures include, but are not necessarily limited to, diversification (as detailed in Section II below), due diligence, and governance activities.

II. INVESTMENT GUIDELINES

1. Eligible Investments

The System will invest primarily in limited partnership interests of pooled vehicles covering the broad spectrum of private investments, including:

- Private equity funds, including corporate finance/buyout and venture capital,
- Private debt funds, including mezzanine and distressed debt funds,
- Co-investments – direct investments made alongside a partnership,
- Secondary purchases – purchases of existing partnership interest or pool of partnership interests from an investor,
- Real estate equity funds, including value-add/opportunistic,
- Hedge Funds – Multi-Strategy and
- Other investments that are deemed appropriate within the System's risk profile.

2. Commitment Size

The maximum investment in any single partnership shall be no greater than one percent (1%) of the System's total assets at the time of commitment.

3. Limitation on Percent of Partnership's Total Commitment

The System's commitment to any given partnership shall not exceed 10% of that partnership's total commitments with the exception of the policy for investments in venture capital, emerging businesses, and money managers in Louisiana.

4. Diversification

The System should diversify the sources of risk in the portfolio. Specifically:

i) Partnerships

- No more than 10% of the Portfolio's total exposure (cost plus unfunded commitments) to Alternative Investments may be attributable to partnerships by the same manager at the time the commitment is made.
- The System shall diversify the portfolio across vintage years when possible.
- The geographic distribution of actual investments shall be monitored and the System shall avoid excessive exposure to the economic conditions of any one locale.
- The System shall monitor investments with respect to industry and property type. In the event that the current cost associated with any one industry or property type exceeds 20%, the System shall attempt to reduce this exposure by limiting future commitments to partnerships with an explicit focus on the industry or property type in question, with the understanding that industry exposure at an investment level will be managed at the discretion of the general partner.

ii) Sub-Asset Classes

- Assets committed to venture capital shall be diversified across the stages of venture capital (e.g. early-stage, mid-stage, and late-stage).
- Assets committed to corporate finance/buyouts shall be diversified by target company size (e.g. large, medium, small).
- Assets committed to real estate shall be diversified by risk profile (e.g. core plus, value-added, and opportunistic).
- No more than 40% of Total Allocation at the time of commitment may be committed to secondary investments.
- No more than 5% of Total Allocation at the time of commitment may be invested in co-investments.

INVESTMENT POLICY (continued)

- No more than 5% of Total Allocation at the time of commitment may be invested in Hedge Funds – Multi-Strategy.

In addition to the Diversification criteria listed above, the System's staff and Consultant will adopt optimal sub-asset allocation targets, which will be periodically updated to reflect general changes in the economy.

The current optimal sub-asset class allocation ranges and targets for the System's Alternative Investments are:

Sub-Asset Class	Range	Long-Term Target
Private Equity	40-80%	55%
Private Debt	0-20%	10%
Real Estate	20-40%	30%
Co-Investments	0-5%	0%
Hedge Funds-Multi-Strategy	0-10%	5%

5. Prohibited Transactions

The System shall not make direct investments in any company or property. These Investments will be done through a commingled partnership, in which the System is an existing limited partner.

6. Advisory Board

The System should seek to obtain a limited partner advisory board seat for each partnership investment.

7. Illiquidity

By its nature, Alternative Investments are not designed to meet any short-term liquidity needs of the System. The Board should assume that the investments in this asset class are illiquid until the partnerships, at their discretion, sell investments and distribute proceeds

8. Distribution

The Consultant is not responsible for investing or disposing of distributions from partnerships.

III. REVIEW OF INVESTMENT GUIDELINES

The Consultant will notify the System, via the Chief Investment Officer and Director, if the Guidelines would impede the System's investment performance. In this regard the Consultant may consider the guidelines and other relevant information adopted by its other clients that invest in Alternative Investments. The Consultant also will review the guidelines annually with the Chief Investment Officer and Director, and recommend any changes deemed beneficial to the System's program. In addition, the Consultant will prepare an annual Strategic Plan for the System's Alternative Investments to take advantage of changing market conditions.

<u>Louisiana Venture Capital, Emerging Businesses, and Money Managers</u>

As required by Act 788 of 2003, the Board has approved the establishment of a program for investing in venture capital, emerging businesses, and money managers focused on Louisiana (the "Program"). The Program is intended to enhance economic development in Louisiana by stimulating job creation and capital formation through investments in Louisiana businesses, as well as result in a market rate of return for TRSL. These potential investments should have several provisions that differ from the current TRSL private equity program. The provisions are listed below under "Louisiana Venture Capital and Emerging Businesses" and "Louisiana Money Managers."

In selecting investments for the Program, the Board will seek attractive business opportunities that are expected to result in the greatest increase in employment and economic growth in the state of Louisiana. In addition to these goals, the Program is intended to produce significant capital gains for TRSL and additional diversification of the plan's assets. The Board will seek to accomplish these goals by investing in private equity partnerships that invest in Louisiana companies and by co-investing with these partnerships or other qualified investors directly in Louisiana companies. The Program should include companies suffering a so-called capital gap, which means they cannot get conventional sources of funding.

The Board recognizes that portfolio risk may be higher and diversification may be lower in the Program when compared to TRSL other investments, due to the relatively small size of the Louisiana economy and the industry concentrations within the state. Nevertheless, the

INVESTMENT POLICY (continued)

returns earned on Program investments are expected to exceed public market returns and to equal or to exceed returns on similar investments that are available outside the Program.

Louisiana Venture Capital and Emerging Businesses

This part of the Program is intended to produce significant capital gains for TRSL and additional diversification of the plan's assets. An additional goal of the program is to promote economic development in Louisiana. These goals will be accomplished through investments in private equity partnerships and co-investments with these partnerships or other qualified investors directly in Louisiana companies. It is recognized that portfolio risk will be higher and diversification will be lower in this Program due to the small size and inherent characteristics of the Louisiana economy.

As with the current TRSL private equity program, commitments to Louisiana partnerships should be staged over time. The level of annual commitments will fluctuate as Louisiana opportunities arise.

In regard to co-investments and direct investments, TRSL will only invest in Louisiana companies that receive or have received equity investments from other qualified investors. Qualified investors are Louisiana private equity funds, current TRSL private equity program funds, or other qualified entities that have demonstrated abilities and relationships in making investments in new, emerging, or expanding businesses. TRSL will structure co-investments and direct investments at its discretion with the advice of its private equity consultants. In making co-investments and direct investments, TRSL will have the same objectives as those for investments in private equity funds: obtaining a reasonable, risk-adjusted rate of return.

Program Requirements

The Board will seek investments in funds that are committed to investing, or that help secure investing by others, in businesses that have their principal place of business in Louisiana and that hold promise for attracting additional capital from national sources for investment in the state. The Program will be governed by the Prudent-Investor Rule.

(1) Investments may be made in funds that:

- (a) Accept investments from qualified investors only; and
- (b) Maintain an active office in Louisiana staffed by at least one full-time manager who is a Louisiana resident and who has at least three years of professional experience in assessing the growth prospects of business or evaluating business plans.

(2) Co-investments and direct investments may be made in Louisiana entities that:

- (a) Receive equity investments from other qualified investors; and
- (b) Have their principal office and a majority of their full-time employees located in Louisiana or, if a limited partnership, have its principal place of business and the majority of its assets located in Louisiana. This includes a company that has agreed to relocate to Louisiana from another state.

(3) The Program is subject to the following limitations:

- (a) Each investment by TRSL may not represent more that 51% of the total investment capital in a Louisiana business, provided that nothing in this policy prohibits the ownership of more than 51% of the total investment capital in a Louisiana business if the additional ownership interest:
  - Is due to foreclosure or other action by TRSL pursuant to agreements with the business or other investors in that business; and
  - Is necessary in the good-faith judgment of the Board to protect the investment.
- (b) No more than 10% of the total Program may be invested in any one Louisiana business;
- (c) If the investment exceeds $1 million in Louisiana business, then TRSL's investment cannot exceed 10% of the Louisiana business.

Louisiana Money Managers

TRSL will continue its practice of allowing maximum participation in money manager searches by giving more managers the opportunity to compete. Increased participation by Louisiana money managers increases their opportunity to manage assets for TRSL.

INVESTMENT POLICY (continued)

Program Requirements

To allow maximum participation, TRSL will reduce the minimum requirements to allow more managers to compete. This can be accomplished without any negative impact to the manager search process.

(1) The assets under management requirement will be reduced to allow newer and smaller firms to participate. This parameter will be determined by staff and consultant and be consistent with the size and style of the mandate.

(2) The five-year performance record requirement has been reduced to three years. The track record can be for an individual that developed the performance record while at another firm.

Glossary of Terms

Co-Investment – An investment made in a Louisiana company in addition to the investment in that company by a private equity fund in which TRSL is an investor.

Direct Investment – An investment made in a Louisiana business that for the purposes of this Program has also received investments from other qualified investors.

Emerging Business – A start-up business or an established business that seeks capital to grow the business and/or expand its product lines.

Qualified Investor-May be Louisiana private equity funds, current TRSL private equity program funds or other qualified entities that have demonstrated abilities and relationships in making investments in new, emerging or expanding businesses.

Venture Capital – An investment strategy that provides start-up or growth capital to companies in the early stages of development. Venture investments generally involve a greater degree of risk, but have the potential for higher returns.

SECURITIES LENDING GUIDELINES

The System may engage in the lending of securities subject to the following guidelines:

(1) Collateral on loans is set at a minimum 102% of the market value of the security plus accrued interest.

(2) Collateral on loans of international securities is set at a minimum 105% of the market value of the security plus accrued interest.

(3) Securities of the System are not released until the custodian bank receives payment for the book-entry withdrawal of the loaned security.

(4) Funds from the lending of securities accrue to the System's account and not to investment manager's since they would not be involved in the process.

(5) The System's Investment Department may engage in the lending of all applicable securities.

Internal Cash and Cash Equivalents Guidelines

Cash and cash equivalents include daily cash balances above day-to-day needs and funds set aside for portfolio strategy reasons. Short-term securities managed by the System's Investment Department are subject to the approval of the director in accordance with the guidelines and restrictions set forth by the Board.
Short-term investments may be invested in:

(1) U.S. Treasury bills, other issues of the U.S. government, issues of federal agencies, and government-sponsored enterprises with a maturity of one year or less.

(2) Repurchase agreements collateralized by U.S. Treasury or agency securities subject to the market value of collateral, including accrued interest, meeting at least 100% of the amount of their purchase agreement.

(3) Commercial paper rated P-1 by Moody's or A-1 by Standard & Poor's and having a senior bond rating of A/A or better. No single issue may exceed 10% of outstanding short-term obligations. The maximum maturity will be 90 days.

INVESTMENT POLICY (continued)

(4) Certificates of deposit limited to Louisiana banks, savings and loans, and credit unions provided that:

(a) Maximum amount in any one bank will be limited to $1 million
(b) All deposits in excess of federal insurance limits shall be collateralized subject to the same rules and regulations in effect for certificates of deposit placed by the Louisiana Department of the Treasury
(c) Maximum amount limited to 5% of capitalization
(d) Maximum maturity is 366 days

(5) Money market funds adhering to restrictions (1) through (4) above.

(6) Issues of commercial debt market with maturities of one year or less and having a rating of A or better. The obligations of any single issuer may not exceed 10% of the total outstanding short-term obligations of the System.

CONTROL PROCEDURES

REVIEW OF LIABILITIES

All major liability assumptions regarding number of plan participants, payroll, benefit levels, and actuarial assumptions will be subject to an annual review. This review will focus on an analysis of the major differences between the System's assumptions and actual experience.

REVIEW OF INVESTMENT OBJECTIVES

The achievement of investment objectives will be reviewed on an annual basis. This review will focus on the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives. It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment to the investment policy.

REVIEW OF INVESTMENT MANAGERS

The Board will require each investment manager to report monthly in a manner agreed upon by the Board, staff, consultant, and manager.

The Board will meet at least annually, and preferably more frequently, with its investment managers and consultants. Additionally, with or without the investment managers, the Board will review investment results at least quarterly.

These reviews will focus on:

(1) Manager adherence to the policy guidelines.

(2) A comparison of manager results versus appropriate financial indices.

(3) A comparison of manager results using similar policies (in terms of commitment to equity, style, diversification, volatility, etc.).

(4) The opportunities available in both equity and debt markets.

(5) Material changes in the manager organizations, such as investment philosophy, personnel changes, acquisitions, or losses of major accounts, etc.

The managers will be responsible for advising the Board of any material change in personnel, investment strategy, or other pertinent information potentially affecting performance.

PERFORMANCE EXPECTATIONS

The most important performance expectation is the achievement of investment results that are consistent with the System's investment policy. A long-term average annual return of 3.9% above inflation as measured by the CPI-U seasonally adjusted or the actuarial rate (currently 8.25%), which ever is higher is reasonable in light of the policy. Implementation of the policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

INVESTMENT POLICY (continued)

The Board recognizes that this real-return objective may not be meaningful during some periods. To ensure that investment opportunities available over a specific period are fairly evaluated, the Board will use comparative performance statistics to evaluate investment results. The Board expects the total fund to perform in the top third of a universe of total funds having similar size and investment policies. To stay abreast of what other state and local plans are achieving, the System's performance will also be compared to the results of other public plans. Each manager is expected to perform in the top half of his or her respective equity manager or fixed income manager universe and in the top quartile of his or her investment manager style universe. Additionally, each manager will be compared/evaluated versus their specific style benchmarks. This performance should be achieved over rolling three-year periods or over the length of each manager's contract, whichever comes first. Short-term results will also be monitored. For purposes of this evaluation, the universes maintained by the System's consultant will be used.

TRSL's investment managers may be placed on a watch list in response to the Board's concern about the manager's recent or long-term investment results, failure of the investment advisor to comply with any of TRSL's investment guidelines, significant changes in the investment manager's firm, or for any other reason that the Board deems appropriate. Any manager placed on the watch list will be sent a letter advising of the Board's concern with the manager. Failure to correct problem situations to the satisfaction of the Board will lead to dismissal, at the discretion of the Board. However, investment managers can be dismissed for any reason, subject to contract provisions, even if they have not been previously placed on the watch list.

RESPONSIBILITIES AND REVIEW OF INVESTMENT CONSULTANT

The Investment Consultants shall assist the Board, the Director and the Chief Investment Officer in developing and modifying policy objectives and guidelines, including the development of an asset allocation strategy and recommendations on the appropriate mix of investment manager styles and strategies. The Consultants shall act as fiduciaries to the Fund.

Additionally, the Consultants shall provide assistance in manager searches and selection, investment performance evaluation, and any other relevant analysis. The Consultants shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Board, the Director, or the Chief Investment Officer.

All consultants will be evaluated on an annual basis.

RESPONSIBILITIES AND REVIEW OF CUSTODIAN BANK

The custodian bank is responsible for performing the following functions, among others designated by contract:

- Safekeeping of securities;
- Process and settlement of all investment manager transactions;
- Accept instructions from designated TRSL staff concerning the movement or disbursement of cash and securities;
- Collection of interest, dividends, proceeds from maturing securities, and other distributions due TRSL;
- Daily sweep of idle cash balances into interest bearing accounts;
- Advise investment staff daily of changes in cash equivalent balances;
- Notify investment managers of tenders, rights, fractional shares or other dispositions of holdings;
- Notify appropriate entities of proxies;
- Provide holdings and performance reports as required by TRSL;
- Third party securities lending and related functions.

The Custodian Bank will be evaluated on an annual basis.

INVESTMENT SUMMARY
AS OF JUNE 30, 2006 AND 2005

	JUNE 30, 2006		JUNE 30, 2005	
	FAIR VALUE	% TOTAL FAIR VALUE	FAIR VALUE	% TOTAL FAIR VALUE
Domestic bonds:				
U S Treasury & Government Agency securities	$ 761,834,788	5.539%	$ 676,616,833	5.417%
Corporate bonds	896,797,431	6.519%	805,058,598	6.445%
Miscellaneous bonds	462,873,438	3.365%	431,364,020	3.453%
Total domestic bonds	2,121,505,657	15.423%	1,913,039,451	15.315%
International bonds	449,917,634	3.271%	497,213,792	3.981%
Domestic stocks*				
Common	5,626,705,747	40.905%	5,792,730,189	46.375%
Preferred	3,367,602	0.024%	4,060,255	0.033%
Total domestic stocks	5,630,073,349	40.929%	5,796,790,444	46.408%
International stocks*				
Common	3,181,487,482	23.129%	1,951,295,177	15.622%
Preferred	6,597,580	0.048%	18,038,444	0.144%
Total international stocks	3,188,085,062	23.177%	1,969,333,621	15.766%
Domestic short-term investments	178,839,314	1.300%	256,739,631	2.055%
International short term investments	24,802,808	0.180%	40,210,400	0.322%
Alternative investments:				
Private equity investments	1,312,350,022	9.540%	1,357,823,698	10.870%
Real estate investments	534,248,976	3.884%	362,732,833	2.904%
Mezzanine financing investments	315,801,413	2.296%	297,148,668	2.379%
Total alternative investments	2,162,400,411	15.720%	2,017,705,199	16.153%
Total investments	$ 13,755,624,235	100.000%	$ 12,491,032,538	100.000%

* The fair value of the equity index portfolios at June 30, 2006 was $1,642,724,396 which represents 19% of total equity which has a market value of $8,818,158,411.

LIST OF LARGEST ASSETS HELD
AT JUNE 30, 2006

LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
U S TREASURY & GOVERNMENT AGENCY SECURITIES				
U S TREASURY BONDS	6.13	11/15/2027	34,955,000	$38,626,321
U S TREASURY BONDS	5.38	02/15/2031	25,470,000	25,919,800
U S TREASURY NOTES	4.50	02/15/2016	22,824,000	21,717,264
U S TREAS-CPI INFLATION INDEX	2.00	01/15/2016	18,241,516	17,414,994
U S TREASURY BONDS	5.25	02/15/2029	17,100,000	17,033,310
U S TREASURY BONDS	6.50	11/15/2026	12,965,000	14,878,276
FHLMC MULTICLASS CTFS 2668 AZ	4.00	09/15/2018	13,950,923	11,782,253
FHLMC MULTICLASS MTG	6.50	07/15/2028	11,201,536	11,347,492
FEDERAL HOME LN BKS # TR 00818	3.38	01/10/2007	11,415,000	11,288,065
FNMA POOL #0735378	4.50	10/01/2019	11,776,545	11,157,105
FEDERAL HOME LN BKS CONS BD	3.38	12/15/2006	11,200,000	11,096,400
FEDERAL HOME LN MTG CORP MTN	5.07	03/26/2007	11,000,000	10,961,500
FNMA GTD REMIC P/T 04-75 GB	4.50	11/25/2030	12,322,485	10,873,854
FEDERAL HOME LN BKS # TR 00086	4.05	03/30/2007	10,000,000	9,992,000
FEDERAL AGRIC MTG CORP MTN	4.13	04/20/2007	9,850,000	9,844,090
FEDERAL AGRIC MTG CORP MTN	4.06	03/30/2007	9,850,000	9,814,540
GNMA POOL #0620951	4.50	09/15/2033	10,614,768	9,755,108
FNMA POOL #0826115	2.98	07/01/2035	9,471,922	9,625,557
FHLMC MULTICLASS CTFS 2682 XK	3.00	01/15/2021	9,795,553	9,595,528
FEDERAL HOME LN BKS CONS BD	4.07	08/25/2006	9,500,000	9,480,525
U S TREASURY BONDS	12.00	08/15/2013	7,550,000	8,582,311
U S TREAS STRIP GENERIC TINT	0.00	08/15/2014	12,625,000	8,327,324
FHLMC POOL #B1-4038	4.50	05/01/2019	8,761,498	8,288,848
FNMA GTD REMIC P/T 04-66 PO	0.00	08/25/2018	10,000,000	7,923,100
FHLMC MULTICLASS MTG 2627 KW	3.14	11/15/2017	8,443,826	7,740,963

LIST OF LARGEST ASSETS HELD (continued)
AT JUNE 30, 2006

LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE) (continued)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
CORPORATE BONDS				
ALTER BARGE LINE INC SF BD	6.00	03/01/2026	8,164,000	$8,288,991
CANAL BARGE INC US GOVT GTD BD	5.87	11/14/2026	8,200,000	8,284,542
REINAUER MARITIME CO LLC US	5.87	11/30/2026	7,965,000	8,035,889
VERIZON WIRELESS CAP LLC NT	5.37	12/15/2006	8,000,000	7,991,200
GENERAL MLS INC NT	5.12	02/15/2007	8,000,000	7,973,680
SPRINT CAP CORP GTD NT	6.00	01/15/2007	6,265,000	6,273,771
DIRECTV HLDGS LLC SR NT	8.37	03/15/2013	5,829,000	6,105,878
HEWLETT PACKARD CO GLOBAL NT	5.75	12/15/2006	6,000,000	6,003,720
METLIFE INC SR NTS	5.25	12/01/2006	5,000,000	4,996,450
ENTERGY LA LLC 1ST MTG BD	5.09	11/01/2014	4,775,000	4,364,637
MGM MIRAGE SR NT	8.50	09/15/2010	4,090,000	4,248,488
CSX TRANSN INC 99 SER B	6.40	04/15/2013	4,000,000	4,105,600
DAIMLERCHRYSLER NORTH AMER	5.74	03/13/2009	4,000,000	4,002,480
BJ SEVICES CO	*	06/01/2008	4,000,000	3,998,720
DEX MDIA EAST LLC/DEX MEDIA	9.87	11/15/2009	3,600,000	3,807,000
UNITED RENTALS NORTH AMER	6.50	02/15/2012	3,900,000	3,685,500
NRG ENERGY INC SR NT	7.25	02/01/2014	3,700,000	3,607,500
DAIMLERCHRYSLER N A HLDG CORP	4.70	03/07/2007	3,500,000	3,500,525
EQUISTAR CHEMICAL SR NT	10.12	09/01/2008	3,250,000	3,420,625
JAMES RIV COAL CO SR NT	9.37	06/01/2012	3,155,000	3,155,000
TXU CORP SR NT SER O	4.80	11/15/2009	3,305,000	3,144,377
INERGY LP & INERGY FIN CORP SR	8.25	03/01/2016	2,970,000	2,999,700
TRIADS HOSPITALS INC	7.00	11/15/2013	3,050,000	2,966,125
UNISYS CORP SR NT	8.00	10/15/2012	3,175,000	2,952,750
ALLIED WASTE NORTH AMER INC SER	6.50	11/15/2010	3,045,000	2,938,425

*Variable Rate

LIST OF LARGEST ASSETS HELD (continued)

AT JUNE 30, 2006

LARGEST DOMESTIC BOND HOLDINGS (BY FAIR VALUE) (continued)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
MISCELLANEOUS BONDS				
FIRST NATL MSTR TR 03-2 CL A	4.48	04/15/2009	11,150,000	$11,156,802
DAIMLERCHRYSLER MASTER OWNER	4.38	08/15/2009	11,080,000	11,085,429
GS MTG SECS CORP 05-AR7 2A1	4.56	11/25/2035	11,274,839	10,951,702
FORD CR FLOORPLAN MSTR 04-1A	5.41	07/15/2009	10,810,000	10,814,540
DISCOVER CARD MASTER TR 02 3 A	4.48	11/17/2009	9,725,000	9,733,558
SPECIALTY UNDERWRIT 06-BC2 A2A	5.45	02/25/2037	9,064,434	9,064,978
ASSET BKD SECS CORP 06-HE3 A3	5.45	03/25/2036	7,966,652	7,960,199
SOUNDVIEW HOME LN 2006-OPT2 A1	5.46	05/25/2036	7,236,075	7,237,088
GE CAP CR CARD MSTR 04-1 CL A	4.42	06/15/2010	7,000,000	7,006,160
FORD CR AUTO OWNER 06-A A2A	5.04	09/15/2008	7,000,000	6,986,000
FREMONT HOME LN TR 2006-1 IIA1	5.45	04/25/2036	6,705,364	6,705,230
INDYMAC MBS INC 2005-AR15 A2	5.10	09/25/2035	7,000,041	6,626,030
MASTR ASSET SEC 03-6 CL 2A1	5.50	07/25/2033	6,858,559	6,580,308
HOME EQUITY ASSET 06-4 2-A-1	5.45	08/25/2036	6,555,284	6,555,153
JP MORGAN ALT LN TR 06 S3 A1A	5.63	08/25/2036	6,500,000	6,499,976
ECHOSTAR DBS CORP SR NT 144A	7.13	02/01/2016	6,360,000	6,121,500
SPECIALTY UNDERWRITING 05-BC2	4.60	12/25/2035	6,000,000	6,027,900
GRACECHURCH CARD FDG NO 8 A1	4.38	06/15/2010	6,000,000	5,999,820
RENAISSANCE HM EQ LN 06 2 AF-1	6.00	08/25/2036	6,000,000	5,973,750
WFS FINL 05 3 OWNER TR NT A-3A	4.25	06/17/2010	6,000,000	5,922,937
HERTZ CORP SR NT 144A	8.88	01/01/2014	5,535,000	5,673,375
CWABS INC 2006-6 CL 2A1	5.46	09/25/2036	5,533,045	5,533,212
CULLINAN FIN LTD #TR00040 144A	5.35	05/15/2007	5,500,000	5,478,495
WELLS FARGO MTG BKD 04-I 1A1	3.39	07/25/2034	5,277,575	5,273,300
AMERICAN GEN MTG 06-1 A1 144A	5.75	12/25/2035	5,180,468	5,164,875

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)
AT JUNE 30, 2006

LARGEST INTERNATIONAL BOND HOLDINGS (BY FAIR VALUE)

COUNTRY	DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
UNITED KINGDOM	UNITED KINGDOM (GOVT OF)	4.25	03/07/2011	12,561,000	$22,709,473
POLAND	POLAND (GOVT OF)	5.75	06/24/2008	64,955,000	20,589,225
SWEDEN	SWEDEN KINGDOM OF BDS	6.50	05/05/2008	136,380,000	20,002,286
FRANCE	FRANCE GOVT OF BDS EUR1	3.75	01/12/2007	15,491,000	19,866,990
GERMANY	GERMANY (FED REP)	4.00	07/04/2016	14,484,000	18,427,367
CANADA	GOVERNMENT OF CANADA	3.75	09/01/2011	20,801,000	18,054,861
SINGAPORE	SINGAPORE (GOVT OF)	2.62	10/01/2007	26,470,000	16,697,015
DENMARK	DENMARK (KINGDOM) BDS	4.00	11/15/2015	89,700,000	15,216,134
CANADA	GOVERNMENT OF CANADA	6.00	06/01/2011	14,190,000	13,590,948
MEXICO	MEXICO (UTD MEX ST) BDS	9.00	12/20/2012	151,900,000	13,571,572
GERMANY	GERMANY FED REP BDS	4.50	07/04/2009	10,380,000	13,571,016
UNITED KINGDOM	TREASURY	4.50	03/07/2007	6,617,000	12,224,276
MEXICO	MEXICO UTD MEX ST	8.00	12/19/2013	139,400,000	11,689,067
UNITED KINGDOM	TREASURY	4.75	09/07/2015	6,300,000	11,681,295
AUSTRALIA	NEW SOUTH WALES TREASURY CORP	7.00	12/01/2010	14,850,000	11,429,989
UNITED KINGDOM	TREASURY	4.75	09/07/2015	5,965,000	11,060,147
GERMANY	GERMANY FED REP BDS	4.00	07/04/2009	8,465,000	10,915,774
AUSTRALIA	AUSTRALIA (CMNWLTH) BDS AUD	6.25	04/15/2015	14,031,000	10,752,698
CANADA	GOVERNMENT OF CANADA	4.50	06/01/2015	11,331,000	10,132,284
AUSTRALIA	NEW STH WALES TSY	6.00	05/01/2012	13,055,000	9,665,265
GERMANY	BUNDESREPUBLIK DEUTSCHLAND	5.25	07/04/2010	6,890,000	9,276,823
AUSTRALIA	QUEENSLAND TREASURY CORP	6.00	10/14/2015	12,430,000	9,197,929
BRAZIL	BRAZIL FED REP OF BDS	12.50	01/05/2016	16,500,000	7,280,813
MEXICO	MEXICO (UTD MEX ST)	9.00	12/24/2009	73,700,000	6,695,756
CANADA	CONOCO FDG CO NT	5.45	10/15/2006	6,050,000	6,045,221

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)
AT JUNE 30, 2006

LARGEST DOMESTIC COMMON STOCK HOLDINGS (BY FAIR VALUE)

DESCRIPTION	SHARES	FAIR VALUE
JOHNNSON & JOHNSON COM	1,300,931	$77,951,786
CITIGROUP INC COM	1,588,690	76,654,293
GENERAL ELECTRIC CO COM	2,032,207	66,981,543
MICROSOFT CORP COM	2,738,265	63,801,575
EXXON MOBIL CORP	1,013,989	62,208,225
BANK OF AMERICA CORP	1,205,815.000	57,999,702
CISCO SYS INC COM	2,623,028	51,227,737
JPMORGAN CHASE & CO COM	1,190,392	49,996,464
PROCTOR & GAMBLE CO COM	855,354	47,557,682
HEWLETT PACKARD CO COM	1,483,371	46,993,193
IBM CORP COM	597,524	45,901,794
PFIZER INC COM STK	1,896,233	44,504,589
CHEVRON CORPORATION COM	596,024	36,989,249
MORGAN STANLEY	550,379	34,789,457
PEPSICO INC COM	564,034	33,864,601
AMERICAN INT'L GROUP INC COM	557,323	32,909,923
A T & T INC COM	1,177,724	32,846,722
WELLS FARGO & CO NEW COM	483,337	32,422,246
WACHOVIA CORP NEW COM	589,652	31,888,380
WALMART STORES INC COM	622,4-98	29,985,726
MARATHON OIL CORP	353,405	29,438,637
KOHLS CORP COM	474,578	28,257,051
INEL CORP	1,444,044	27,436,836
CONOCOPHILLIPS	417,762	27,375,944
GENENTECH INC	322,765	26,402,177

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)
AT JUNE 30, 2006

LARGEST INTERNATIONAL COMMON STOCK HOLDINGS (BY FAIR VALUE)

COUNTRY	DESCRIPTION	SHARES	FAIR VALUE
LUXEMBOURG	EB INTL STOCK INDEX FD	1,483,385	$438,321,730
LUXEMBOURG	DFA INTL SMALL CO PORTFOLIO	6,868,378	120,540,040
LUXEMBOURG	WORLD INVEST EMERGING MKT FD	1,531,097	42,987,380
SWITZERLAND	UBS AG CHF0.80 (REGD)	252,004	27,566,152
UNITED KINGDOM	GLAXOSMITHKLINE ORD GBP0.25	959,693	26,820,253
JAPAN	CREDIT SAISON CO NPV	502,000	23,801,250
SWITZERLAND	ROCHE HLDG AG GENUSSCHEINE NPV	138,100	22,783,682
FRANCE	TOTAL SA EUR2.5 POST SUBDIVISION	334,380	21,997,704
ITALY	ENI EUR1	698,314	20,563,468
JAPAN	AEON CO LTD NPV	931,900	20,461,610
GERMANY	RWE AG (NEU) NPV 'A'	245,098	20,386,316
JAPAN	MIZUHO FINL GP NPV	2,392	20,275,973
NETHERLANDS	ROYAL DUTCH SHELL 'A' SHS EUR0.07 0.5% STAMP DUTY	593,400	19,974,918
UNITED KINGDOM	VODAFONE GROUP PLC ORD USD0.10	8,733,000	18,615,318
HONG KONG	CHINA MOBILE (HK) HKD0.10	3,192,700	18,251,047
JAPAN	SUMITOMO TRUST & BKG CO Y50	1,584,000	17,320,561
SWITZERLAND	NOVARTIS AG CHF0.50 (REGD)	316,420	17,099,595
SOUTH KOREA	KOOKMIN BANK KRW5000	204,320	16,798,735
JAPAN	SEGA SAMMY HLDGS INC NPV	443,336	16,443,551
ITALY	SAIPEM EUR1	706,207	16,064,220
SWITZERLAND	NESTLE SA CHF1	51,117	16,023,615
CANADA	ENCANA CORP	302,000	15,962,198
FRANCE	SANOFI-AVENTIS EUR2	156,653	15,283,223
GERMANY	ALLIANZ AG NPV REGD VINKULIERT	96,041	15,168,605
JAPAN	ORIX CORP Y50	62,000	15,158,990

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)

AT JUNE 30, 2006

LARGEST DOMESTIC PREFERRED STOCK HOLDINGS (BY FAIR VALUE)

DESCRIPTION	SHARES	FAIR VALUE
GENERAL MTRS CORP DEB SR	75,000	$1,830,000
CROWN CASTLE INTL CORP PFD	20,000	1,110,000
CHESAPEAKE ENERGY CORP PFD	4,150	387,859
ZIFF DAVIS HLDGS INC PFD SER	239	35,850
PTV INC PFD 10%	1,297	3,891

LARGEST INTERNATIONAL PREFERRED STOCK HOLDINGS (BY FAIR VALUE)

COUNTRY	DESCRIPTION	SHARES	FAIR VALUE
BRAZIL	PETROLEO BRASILEIRO SA	136,800	$2,729,363
BRAZIL	USINAS SID MINAIS GERAIS	44,300	1,589,417
SOUTH KOREA	SAMSUNG ELECTRS CO CO PRF	2,996	1,462.157
BRAZIL	BRASKEM S.A. NEW PRF 'A'NPV	72,800	447,043
GERMANY	PROSIEBENSATI MEDIA AG NPV	10,097	252,143
GERMANY	SIXT AG NON VTG PREF NPV	3,002	117,458

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)

AT JUNE 30, 2006

LARGEST DOMESTIC SHORT-TERM INVESTMENT HOLDINGS (BY FAIR VALUE)

DESCRIPTION	COUPON RATE	MATURITY DATE	PAR VALUE	FAIR VALUE
FEDERATED PRIME OBLIGATION FUND			54,480,000	$54,480,000
DREYFUS CASH MANAGEMENT PLUS			44,437,957	44,437,957
EB SMAM SHORT TERM INV FUND	0.05	12/31/2099	35,243,029	35,243,029
FEDERAL NATL MTG ASSN DISC	0.00	07/17/2006	14,000,000	13,962,169
FEDERAL HOME LN MTG CORP DISC	0.00	07/11/2006	11,350,000	11,234,028
FEDERAL NATL MTG ASSN DISCOUNT	0.00	07/11/2006	10,950,000	10,929,751
DREYFUS CASH MANAGEMENT PLUS - LA DROP			8,318,265	8,318,265
BSDT - LATE MONEY DEPOSIT ACCT	0.75	12/31/2049	234,115	234,115

LARGEST INTERNATIONAL SHORT-TERM INVESTMENT HOLDINGS (BY FAIR VALUE)

COUNTRY	DESCRIPTION	MATURITY DATE	PAR VALUE	FAIR VALUE
CANADA	GOVERNMENT OF CANADA T-BILL	11/02/2006	15,995,120	$14,382,808

A complete list of portfolio holdings is available upon request.

LIST OF LARGEST ASSETS HELD (continued)

AT JUNE 30, 2006

LARGEST ALTERNATIVE INVESTMENT HOLDINGS (BY FAIR VALUE)

DESCRIPTION	FAIR VALUE
PRIVATE EQUITY INVESTMENTS	
HICKS, MUSE, TATE & FURST EQUITY FUND V, L.P.	$241,735,426
APOLLO INVESTMENT FUND IV, L.P.	131,690,822
CARLYLE PARTNERS III, L.P.	129,754,310
DLJ MERCHANT BANKING PARTNERS III, L.P.	122,726,232
APOLLO INVESTMENT FUND V, L.P.	80,125,705
WARBURG PINCUS INTERNATIONAL PARTNERS, L.P.	67,161,561
BEAR STEARNS MERCHANT BANKING PARTNERS II, L.P.	52,528,572
HICKS, MUSE, TATE & FURST EQUITY FUND IV, L.P.	49,397,929
WARBURG PINCUS EQUITY PARTNERS, L.P.	48,790,525
DOUGHTY HANSON & CO III, L.P.	44,081,467
HEARTLAND INDUSTRIAL PARTNERS, L.P.	43,635,831
HORSLEY BRIDGE VII, L.P.	34,446,350
HICKS, MUSE, TATE & FURST EQUITY FUND III, L.P.	32,936,994
WARBURG PINCUS PRIVATE EQUITY IX, L.P.	28,983,845
APOLLO INVESTMENT FUND III, L.P.	28,891,962
SPECIAL PRIVATE EQUITY PARTNERS, L.P.	25,690,025
COMPASS PARTNERS EUROPEAN EQUITY FUND, L.P.	23,786,488
SECOND CINVEN FUND US, L.P.	23,337,773
PHAROS CAPITAL PARTNERS, L.P.	20,774,042
CARLYLE PARTNERS IV, L.P.	20,547,460
BRERA CAPITAL PARTNERS, L.P.	19,142,569
CREDIT SUISSE FIRST BOSTON EQUITY PARTNERS, L.P.	18,674,666
DEUTSCHE EUROPEAN PARTNERS IV, L.P.	14,891,413
PHAROS CAPITAL PARTNERS II-A, L.P.	6,934,583
LOUISIANA FUND I, L.P.	933,543
TEXAS PACIFIC GROUP PARTNERS V, L.P.	657,434
APOLLO INVESTMENT FUND VI, L.P.	92,495

LIST OF LARGEST ASSETS HELD (continued)
AT JUNE 30, 2006

LARGEST ALTERNATIVE INVESTMENT HOLDINGS (BY FAIR VALUE) (continued)

DESCRIPTION	FAIR VALUE
REAL ESTATE LIMITED PARTNERSHIP INVESTMENTS	
ING REALTY PARTNERS II, L.P.	$57,857,000
STARWOOD GLOBAL OPPORTUNITY FUND VI, L.P.	51,761,436
DLJ REAL ESTATE CAPITAL PARTNERS II, L.P.	36,674,870
OLYMPUS REAL ESTATE FUND II, L.P.	33,760,243
OLYMPUS REAL ESTATE FUND III, L.P.	30,813,560
WESTBROOK REAL ESTATE FUND IV, L.P.	23912342
DOUGHT HANSON & CO EUROPEAN REAL ESTATE, L.P.	23,175,543
STARWOOD OPPORTUNITY FUND IV, L.P.	17,149,233
ROCKPOINT REAL ESTATE FUND II, L.P.	16,333,248
WESTBROOK REAL ESTATE FUND III, L.P.	14,344,877
BLACKSTONE REAL ESTATE PARTNERS V, L.P.	10,531,166
STARWOOD GLOBAL OPPORTUNITY FUND VII, L.P.	9,985,385
ING REALTY PARTNERS HOLDINGS, L.P.	7,878,000
OLYMPUS CO-INVESTMENT (HIGHTOP HOLDINGS, L.P.)	1,128,744
WESTBROOK PARTNERS CO-INVESTMENT (SUNSTONE HOTEL)	43,329
MEZZANINE FINANCING INVESTMENTS	
TCW/CRESCENT MEZZANINE PARTNERS III, L.P.	$61,458,614
PRUDENTIAL CAPITAL PARTNERS, L.P.	45,236,484
THE 1818 MEZZANINE FUND, L.P.	34,139,567
AUDAX MEZZANINE FUND, L.P.	34,031,761
PENINSULA FUND III, L.P.	28,927,626
TCW/CRESCENT MEZZANINE PARTNERS IV, L.P.	28,237,291
BLACKSTONE MEZZANINE PARTNERS, L.P.	27,551,031
GLEACHER MEZZANINE FUND I, L.P.	21,537,047
FALCON MEZZANINE PARTNERS II, L.P.	16,479,499
DLJ INVESTMENT PARTNERS II, L.P.	8,885,639
DLJ REAL ESTATE MEZZANINE CAPITAL PARTNERS, L.P.	6,037,070
LEVINE LEICHTMAN CAPITAL PARTNERS DEEP VALUE FUND, L.P.	3,279,784

A complete list of portfolio holdings is available upon request.

NET EARNINGS ON INVESTMENTS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
Earnings on investments:				
Net appreciation (depreciation) in domestic investments:				
Bonds	$(73,623,406)		$ 28,286,228	
Short-term investments	1,161,089		(506,231)	
Common and preferred stocks	(169,320,160)		158,894,198	
Alternative investments	70,330,159	(171,452,318)	(33,886,802)	$ 152,787,393
Net appreciation (depreciation) in international investment:				
Bonds	(14,894,049)		(27,669,706)	
Common and preferred stocks	416,698,983	401,804,934	18,121,071	(9,548,635)
Domestic interest income:				
Bonds	102,959,534		103,095,870	
Certificates of deposits	959,738		20,371	
Short-term investments	31,128,593	135,047,865	8,733,959	111,850,200
International interest income:				
Bonds	24,097,704		29,582,370	
Certificates of deposits	186,217			
Short-term investments	3,508,311	27,792,232	315,820	29,898,190
Domestic common and preferred dividends		77,813,221		84,579,303
International common and preferred dividends		68,564,525		31,583,991
Securities lending income:				
Fixed	11,741,103		12,335,992	
Equity	3,051,100		2,131,360	
International	7,376,316	22,168,519	10,041,118	24,508,470
Gain (loss) on sale of domestic securities, net:				
Bonds	(6,164,143)		10,260,203	
Common and preferred stocks	600,341,685		196,686,207	
Short-term investments	386,564,994	980,742,536	303,965,576	510,911,986
Gain (loss) on sale of international securities, net:				
Bonds	(2,908,459)		6,522,469	
Short-term investments	(2,062,935)		2,171	
Common and preferred stocks	191,980,377	187,008,983	76,586,267	83,110,907
Gain (loss) on international exchange transactions, net:		(3,956,615)		124,271,321
Alternative investments		97,733,026		108,622,676
Commission rebate income		675,608		571,219
Gross earnings		**1,823,942,516**		**1,253,147,021**
Charges against earnings:				
Securities lending expenses				
Fixed	10,678,371		11,423,434	
Agents	676,106		750,588	
Equity	249,909		249,954	
International	5,024,341	16,628,727	7,860,336	20,284,312
International tax expense		9,493,180		5,710,058
Alternative investments expense		28,474,213		64,918,175
Custodian fees		761,689		760,908
Performance consultant fees		1,077,254		618,996
Trade cost analysis fees		40,000		10,000
Advisor fees		29,802,772		26,020,649
Total charges		**86,277,835**		**118,323,098**
Net income on investments		**$1,737,664,681**		**$1,134,823,923**

INVESTMENT PERFORMANCE MEASUREMENTS[1] - YEAR ENDED JUNE 30, 2006

	Rate of Return	Rank[2]
Comparative Rates of Return on Total Fund		
Teachers' Retirement System of Louisiana	14.3%	10
Comparison indices:		
Median Public Fund Return (Greater than $1.0 billion)	11.2%	50
Comparative Rates of Return on Domestic Equities		
Teachers' Retirement System of Louisiana	9.5%	66
Comparison indices:		
Median Equity Fund Return	11.6%	50
Standard and Poor's 500 Index	8.6%	73
Comparative Rates of Return on Domestic Bonds		
Teachers' Retirement System of Louisiana	1.8%	34
Comparison indices:		
Median Bond Fund Return	0.5%	50
Lehman Brothers Aggregate Bond Index	(0.8%)	88
Comparative Rates of Return on International Equities		
Teachers' Retirement System of Louisiana	27.7%	49
Comparison indices:		
Median International Equity Return	27.1%	50
E.A.F.E. Index (after tax)	26.6%	65
Comparative Rates of Return on Global Bonds		
Teachers' Retirement System of Louisiana	0.6%	50
Comparison indices:		
Median Global Bond Return	0.6%	50
Citigroup World Government Bond Index	(0.4%)	82
Comparative Rates of Return on Alternative		
Teachers' Retirement System of Louisiana	32.3%	N/A[3]
Comparison indices:		
S&P 500 Index plus 4%	12.6%	N/A
Total Fund performance is compared to Public Funds greater than $1.0 billion in assets as follows:		
Three-year period ended June 30, 2006	14.5%	17
Five-year period ended June 30, 2006	7.4%	42
Ten-year period ended June 30, 2006	9.0%	34

[1] Investment return calculations were prepared using a time-weighted return in accordance with the Performance Presentation Standards of the CFA Institute.
[2] The Mellon Financial Universe (PARis) consists of 179 Master Trusts with assets greater than $1.0 billion.
[3] Mellon Financial does not provide a universe for alternative investments.

RATES OF RETURN[1]

	ANNUAL YEARS ENDING JUNE 30					ANNUALIZED	
	2002	2003	2004	2005	2006	3 YRS.	5 YRS
TOTAL FUND							
Teachers' Retirement System of Louisiana	(7.6%)	2.7%	18.2%	10.9%	14.3%	14.5%	7.4%
Median Large Fund Returns[2]	(5.6%)	4.0%	16.2%	9.8%	11.2%	12.9%	7.2%
Inflation (CPI)	1.0%	2.2%	3.2%	2.5%	4.3%	3.4%	2.7%
DOMESTIC EQUITIES							
Teachers' Retirement System of Louisiana	(14.2%)	(2.7%)	22.1%	8.2%	9.5%	13.1%	3.8%
Median Equity Large Fund Returns[2]	(16.9%)	(0.1%)	23.4%	8.3%	11.6%	15.7%	6.4%
Standard & Poor's 500 Index	(18.0%)	0.3%	19.1%	6.3%	8.6%	11.2%	2.5%
DOMESTIC BONDS							
Teachers' Retirement System of Louisiana	4.3%	11.3%	4.1%	7.9%	1.8%	4.6%	5.8%
Median Bond Large Fund Returns[2]	8.1%	11.9%	1.3%	7.2%	0.5%	2.5%	5.1%
Lehman Brothers Aggregate Index	8.6%	10.4%	0.3%	6.8%	(0.8%)	2.1%	5.0%
INTERNATIONAL EQUITIES							
Teachers' Retirement System of Louisiana	(9.7%)	(5.6%)	29.9%	12.0%	27.7%	22.9%	9.6%
Median International Equity Only Return[2]	(8.0%)	(6.0%)	31.7%	15.2%	27.6%	24.8%	11.6%
E.A.F.E. Index (after tax)	(9.5%)	(6.5%)	32.4%	13.7%	26.6%	23.9%	10.0%
GLOBAL BONDS							
Teachers' Retirement System of Louisiana	19.1%	20.6%	10.0%	9.6%	0.6%	6.6%	11.7%
Median Global Bond Only Returnd[2]	12.0%	16.7%	6.1%	8.3%	0.6%	4.6%	9.0%
Citigroup World Government Bond Index	15.7%	17.9%	5.7%	7.6%	(0.4%)	4.2%	8.5%
ALTERNATIVE INVESTMENTS							
Teachers' Retirement System of Louisiana	(7.0%)	5.0%	19.6%	20.2%	32.3%	24.7%	13..7%
Median Global Bond Only Return[3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A
S & P 500 Index Plus 4%	(14.0%)	4.3%	23.1%	10.3%	12.6%	15.2%	6.5%

[1] Investment return calculations were prepared using a time-weighted return in accordance with the Performance Presentation Standards of The CFA Institute.
[2] The Mellon Financial Universe (PARis) consists of 179 Master Trusts with assets greater than $1.0 billion.
[3] Mellon Financial does not provide a universe for alternative investments.

SUMMARY SCHEDULE OF COMMISSIONS PAID TO BROKERS FOR THE YEAR ENDED JUNE 30, 2006

	SHARES TRADED	COMMISSION DOLLAR AMOUNT	COMMISSION PER SHARE
Domestic	23,437,228	$968,860	$0.041
Louisiana Incorporated Brokers			
Cullen Investment Group			
Dorsey & Company, Inc.			
FBT Investments			
Francis Financial (Minority)			
Hibernia Southcoast			
Sisk Investments			
Sisung Securities			
Louisiana Domiciled Brokers	34,467,120	1,187,421	0.034
A.G. Edwards & Sons			
Jefferies & Company			
Legg Mason			
Merrill Lynch			
Morgan Keegan			
Morgan Stanley			
Smith Barney			
The Stanford Group			
Wachovia Securities			
Wachovia Securities			
Williams Capital (Minority)			
Minority Brokers	9,909,565	384,776	0.039
GRW			
Jackson Partners			
Magna Securities			
Pacific American			
Out-of State Brokers	49,753,702	1,586,519	0.032
Abel Noser			
Cantor Fitzgerald			
Citation*			
Concord			
Dain Rauscher Pierce			
A.G. Edward & Sons			
First Southwest			
Jefferies & Company			
Raymond James			
External Managers	185,710,054	2,790,369	0.015
Recapture Brokers	18,249,481	691,349	
Lynch Jones & Ryan			
State Street Brokerage			
Rebate to Teachers' Retirement System of Louisiana		(550,930)	
Net Recapture Brokers		140,419	0.008
Total Domestic	321,527,150	$7,058,364	0.022

*Includes $164,715 in soft dollar commission for citation to pay for Bloomberg Services.

SUMMARY SCHEDULE OF COMMISSIONS PAID TO BROKERS (continued)
FOR THE YEAR ENDED JUNE 30, 2006

		COMMISSION	
	SHARES TRADED	DOLLAR AMOUNT	PER SHARE
International*			
Louisiana Incorporated Brokers Lugano Group	84,940	$ 5,744	$0.068
External Managers	221,275,167	3,296,041	0.015
Subtotal International	221,360,107	3,301,785	
Rebate to Teachers' Retirement System of Louisiana		(139,089)	
Total International*	221,360,107	3,162,696	0.014
Total Domestic and International	542,887,257	$10,221,060	$0.019

*The cost of trading international stocks is measured as a percent of the value of the stock traded. Most international stock values are low when measured in U.S. dollars. Therefore, the cost to trade such stocks is less than the cost to trade domestic stocks.

ACTUARIAL SECTION

SJ Actuarial Associates
Shelley R Johnson
M.A.A.A., A.S.A., A.C.A

18645 Antebellum Court
Prairieville, La. 70769
(225) 272-7339

September 15, 2006

Board of Directors
TEACHERS' RETIREMENT SYSTEM OF LOUISIANA
Post Office Box 94123
Baton Rouge, Louisiana 70804-9123

Ladies and Gentlemen:

Pursuant to your request, I have completed the annual valuation of the Teachers' Retirement System of Louisiana as of June 30, 2006. The valuation was prepared on the basis of the data submitted by the Retirement System, the actuarial assumptions adopted by the Board of Trustees, and reflects the benefits in effect on the valuation date.

Notable changes in recent prior legislative sessions include the following Acts: Act 1031 of 1992 established the Experience Account which provides for the pre-funding of retiree COLA's by accumulating 50% of the excess investment income. The Texaco Settlement Fund was established July 1, 1995 to dedicate allocated assets to reduce the initial unfunded actuarial liability established by Act 81. This fund, now called the Initial UAL Amortization Fund, now includes a one time legislative allocation of $26,400,000 per Act 642 of 2006. Act 981 of 1997 eliminates the current twenty year retirement for new members hired after July 1, 1999. Act 1172 of 2001 increases the permissible retiree COLA formula to 3%, provides a minimum one time COLA to retirees equal to $200 per month, not to exceed a benefit of $1000 per month. Survivors and beneficiaries minimum benefit is increased to $600 and $300 per month.

Act 588 of 2004 made significant changes to prospective funding. The outstanding balances of changes in liabilities from 1993 - 2000 were re-amortized as a level dollar amount to 2029. The amortization period for changes in liabilities beginning with 2001 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. The Experience Account was reset to zero.

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 payable for the fiscal year commencing July 1, 2006 was determined to be 15.8% of payroll. This rate is unchanged from the projected employer's rate of 15.8%. The current contribution rate, together with the contributions payable by the members, is sufficient to achieve the funding objective set forth above.

SJ Actuarial Associates

Board of Trustees
TEACHERS' RETIREMENT SYSTEM
September 15, 2006

The methodology for determining the actuarial value of assets approved by the Board of Trustees is consistent with the prior plan year. The current method values all assets on a basis which reflects a four-year moving weighted average of the relationship 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 June 30, 2006 was $13,622,841,306. The Actuarial Value of Assets, when adjusted for the Experience Account Fund in the amount of $534,616,331, the side-fund assets for the Louisiana State University Agriculture and Extension Service Supplement of $-132,576, and the side-fund assets from the Initial IUAL Amortization Fund of $252,566,705 yields assets for funding purposes of $12,835,790,846.

In performing the June 30, 2006 valuation, we have relied upon the employee data and financial information provided by the administrative staff of the Teachers' Retirement System of Louisiana. Regarding participant data, each record was edited for reasonableness and consistency, although the validity of the information was not compared to source documents or compared with data for the same participant utilized in prior valuations. Regarding plan assets, a general review for consistency and balance testing with information furnished for the prior year's valuation was performed.

The present values shown in the June 30, 2006 actuarial valuation and supporting statistical schedules of this certification, which have been reformatted and comprises 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(13) 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 represents my best estimate of the funding requirement to achieve the Retirement System's Funding Objective.

Respectfully submitted,

Shelley R. Johnson

Shelley R. Johnson, ACA, MAAA, ASA
Consulting Actuary

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 Teachers' Retirement System of Louisiana (TRSL) based on the 1997-2001 actuarial experience study with supplemental revision in 1990 and other Board action.

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 percent increase for the first five years, reducing by .5 percent 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 2000 as a level dollar payment to 2029. Amortization periods for changes in liabilities beginning with 2001 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 payroll. Discrepancy between dollars generated by percentage of payroll versus the required dollar amount are treated as a short-fall 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, 1997, fixed income securities were valued at amortized cost.

Valuation Data: The administrative staff of TRSL 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 book value and market value of System assets are provided by the administrative staff of TRSL. 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 percent per annum, compounded annually.

Employee Salary Increases: Incorporated in the following salary scales is an explicit 4.5 percent portion attributable to the effects or salaries, based upon years of service:

Regular Teachers - range	**3.20% - 7.80%**
School Lunch - range	**2.50% - 6.50%**
University – range	**3.50% - 9.00%**

	Teachers	School Lunch A	School Lunch B	UNIVERSITY
Duration 1 yr.	**7.80%**	**7.80%**	**6.50%**	**9.00%**
5 yr.	**6.80%**	**6.50%**	**6.00%**	**6.50%**
10 yr.	**6.50%**	**4.00%**	**5.20%**	**6.20%**
15 yr.	**5.80%**	**6.00%**	**4.00%**	**6.20%**
20 yr.	**5.50%**	**4.50%**	**3.20%**	**5.50%**
25 yr.	**5.20%**	**4.00%**	**3.20%**	**5.50%**
30 yr.	**3.80%**	**3.20%**	**2.50%**	**4.50%**

The active member population is assumed to remain constant.

SUMMARY OF ASSUMPTIONS (continued)

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 were projected separately for School Lunch Employees. Mortality after disability are based on the Eleventh Actuarial Valuation of the Railroad Retirement System for permanent disabilities.

	Teachers	School Lunch A	School Lunch B	UNIVERSITY
Age 25	.01%	.00%	.00%	.01%
30	.03%	.00%	.00%	.01%
35	.06%	.01%	.05%	.01%
40	.10%	.01%	.13%	.05%
45	.18%	.70%	.40%	.10%
50	.24%	2.00%	.80%	.05%
55	.47%	2.00%	3.00%	2.00%

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

	Teachers	School Lunch A	School Lunch B	UNIVERSITY
Age 25	7.0%	0.0%	16.0%	14.0%
30	8.0%	1.0%	9.0%	12.0%
35	6.0%	1.0%	4.0%	14.0%
40	3.0%	1.0%	4.0%	9.0%
45	2.0%	1.0%	3.0%	4.0%
50	2.0%	1.0%	2.0%	2.0%

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

Retirement/DROP Assumptions: Retirement rates were projected based upon the 1997-2001 experience study. Rates illustrated below are retirement rates and the probability of DROP participation, respectively.

	Teachers		School Lunch A		School Lunch B		UNIVERSITY	
Age 50 yr.	3%	0%	1%	0%	0%	0%	3%	0%
51 yr.	3%	5%	1%	0%	0%	0%	3%	5%
52 yr.	3%	15%	3%	0%	0%	0%	4%	10%
53 yr.	5%	15%	3%	0%	0%	50%	5%	10%
54 yr.	10%	35%	3%	0%	0%	50%	9%	10%
Age 55 yr.	23%	55%	10%	10%	50%	12%	15%	20%
56 yr.	23%	10%	10%	37%	33%	12%	18%	5%
57 yr.	40%	10%	15%	15%	33%	12%	24%	5%
58 yr.	40%	10%	20%	15%	33%	12%	34%	5%
59 yr.	26%	15%	35%	25%	33%	12%	20%	6%
Age 60 yr.	26%	20%	35%	52%	33%	2%	20%	9%
61 yr.	26%	7%	30%	52%	33%	2%	20%	2%
62 yr.	33%	5%	40%	25%	55%	2%	20%	2%
63 yr.	33%	5%	50%	15%	55%	2%	20%	2%
64 yr.	33%	5%	50%	15%	40%	2%	20%	2%
Age 65 yr.	33%	5%	40%	15%	40%	2%	30%	2%
66 yr.	40%	5%	40%	15%	40%	2%	30%	2%
67 yr.	40%	5%	32%	15%	40%	2%	30%	2%
68 yr.	36%	5%	32%	15%	40%	2%	30%	2%
69 yr.	36%	5%	32%	15%	25%	2%	30%	5%
70 yr.	36%	5%	32%	15%	25%	2%	30%	2%

ACTUARIAL VALUATION BALANCE SHEET
AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
PRESENT ASSETS CREDITABLE TO:		
Members' Savings Account	$ 1,912,023,440	$ 2,003,732,146
Annuity Reserve Account	11,176,334,112	10,078,949,536
TOTAL PRESENT ASSETS	13,088,357,552	12,082,681,682
PRESENT VALUE OF PROSPECTIVE CONTRIBUTIONS PAYABLE TO:		
Members' Savings Account	2,115,521,869	2,297,255,166
Annuity Reserve Account		
Normal	1,957,774,121	2,024,130,370
Accrued Liability	7,179,815,902	7,588,534,085
TOTAL PROSPECTIVE CONTRIBUTIONS	11,253,111,892	11,909,919,621
TOTAL ASSETS	**$ 24,341,469,444**	**$ 23,992,601,303**
LIABILITIES		
PRESENT VALUE OF PROSPECTIVE BENEFITS PAYABLE ON ACCOUNT OF:		
Current Retiree Members	$ 12,981,167,393	$ 12,051,528,584
Current Active Members	10,911,482,834	11,655,316,520
Deferred Vested & Reciprocal Members	448,819,217	285,756,199
TOTAL LIABILITIES	**$ 24,341,469,444**	**$ 23,992,601,303**

NOTE: Information on this page was provided by SJ Actuarial Associates.

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 ACCRUED LIABILITIES COVERED BY ASSETS (1)	(2)	(3)
1997	$1,572.6	$6,408.6	$4,095.4	$ 7,752.6	100%	97%	0%
1998	1,641.6	7,218.8	4,324.6	9,071.7	100%	100%	5%
1999	1,684.3	7,929.4	4,299.5	10,092.1	100%	100%	11%
2000	1,714.8	8,659.1	4,222.5	11,368.7	100%	100%	41%
2001	1,764.2	9,063.2	4,216.8	12,062.1	100%	100%	29%
2002	1,774.2	9,958.0	4,531.0	12,019.5	100%	100%	2%
2003	1,770.1	10,776.8	4,626.4	11,826.9	100%	93%	0%
2004	1,915.4	11,670.9	4,630.4	11,409.4	100%	83%	0%
2005	2,003.7	12,337.2	4,358.8	12,082.7	100%	82%	0%
2006	1,912.0	13,430.0	4,048.8	13,088.4	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 % OF ACTIVE PAYROLL
1997	$12,077.6	$ 7,752.6	64.2	$4,325.1	$2,337.5	185.0%
1998	13,185.2	9,071.7	68.8	4,113.4	2,485.1	165.5%
1999	13,913.4	10,092.1	72.5	3,821.3	2,569.5	148.7%
2000	14,596.4	11,368.7	77.9	3,227.7	2,563.6	125.9%
2001	15,390.4	12,062.1	78.4	3,328.3	2,582.8	128.9%
2002	16,263.2	12,019.5	73.9	4,243.7	2,777.7	152.8%
2003	17,196.8	11,826.9	68.8	5,369.9	2,977.9	180.3%
2004	18,067.5	11,406.4	63.1	6,658.1	3,017.1	220.7%
2005	18,669.8	12,082.7	64.6	6,617.1	3,132.2	211.3%
2006	19,390.8	13,088,4	67.5	6,302.4	2,893.0	217.8%

NOTE: Information on this page was provided by SJ Actuarial Associates.

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
(in thousands of dollars)

	2006	2005	2004	2003
Unfunded Actuarial Liability at beginning of Fiscal Year (7/1)	$6,812,643	$8,836,079	$5,531,918	$4,517,175
Interest on Unfunded Liability	562,043	563,977	456,383	372,667
Investment Experience (gains) decreases UAL	(862,859)	(178,459)	(166,404)	1,598,190
Plan Experience (gains) decreases UAL	(11,575)	(141,393)	125,636	452,172
Employer Amortization Payments (payments) decreases UAL	(331,786)	(325,744)	(319,558)	(258,894)
Employer Contribution Variance (excess contributions) decreases UAL	(44,898)	(31,047)	29,662	9,704
Experience Account Allocation (allocations) decreases UAL	431,422	89,230	1,178,442	(799,095)
Other – Miscellaneous gains and losses from transfers or Acts of the Legislature	0	0	0	(360,001)
Unfunded Actuarial Liability at end of Fiscal Year (6/30)	$6,554,990	$6,812,643	$6,836,079	$5,531,918

NOTE: Information on this page was provided by SJ Actuarial Associates.

RE-AMORTIZATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
June 30, 2006

Date 06/30	DESCRIPTION	AMORTIZATION METHOD	AMORTIZATION PERIOD	INITIAL LIABILITY	YEARS REMAIN	REMAINING BALANCE	MID YEAR PAYMENT
2003	Initial Liability	I	26	$6,285,061,957	23	$6,639,179,732	$430,741,338
1993	Change in Liability	L	25	(838,057,486)	23	(815,042,240)	(77,075,133)
1994	Change in Liability	L	25	(285,027,105)	23	(277,199,517)	(26,213,598)
1995	Change in Liability	L	25	(11,255,751)	23	(10,946,639)	(1,035,178)
1996	Change in Liability	L	25	(227,335,061)	23	(221,091,847)	(20,907,731)
1997	Change in Liability	L	25	72,828,575	23	70,828,512	6,697,956
1998	Change in Liability	L	25	(312,542,081)	23	(303,958,860)	(28,744,117)
1999	Change in Liability	L	25	(361,354,605)	23	(351,430,864)	(33,233,346)
2000	Change in Liability	L	25	(672,461,184)	23	(653,993,645)	(61,845,442)
2001	Change in Liability	I	27	59,149,207	25	61,625,756	3,791,664
2002	Change in Liability	I	28	859,751,039	26	898,129,462	53,938,276
2003	Change in Liability	I	29	2,115,958,339	27	2,215,837,472	130,072,738
2004	Change in Liability	L	30	27,253,793	28	26,775,288	2,381,906
2005	Change in Liability	L	30	(230,622,183)	29	(228,677,828)	(20,155,736)
2006	Change in Liability	L	30	$6,285,061,957	30	(443,111,635)	(38,726,721)
		TOTAL OUTSTANDING BALANCE				$6,606,923,147	$ 319,686,876
		EMPLOYER'S CREDIT BALANCE					
2002	Contribution variance	L	5	(20,606,578)	1	(4,799,171)	(4,993,213)
2003	Contribution variance	L	5	9,730,820	2	4,359,803	2,357,891
2004	Contribution variance	L	5	29,662,467	3	19,185,370	7,187,561
2005	Contribution variance	L	5	(31,046,965)	4	(25,781,123)	(7,523,041)
2006	Contribution variance	L	5	(44,898,264)	5	(44,898,264)	(10,879,371)
		TOTAL CREDIT BALANANCE				$ (51,933,385)	$ (13,850,173)
		TOTAL UNFUNDED ACTUARIAL ACCRUED LIABILITY				$6,554,989,762	

Effective July 1, 1992, Amortization Periods changed in accordance with Act 257.
Includes Act 588 of the 2004 Legislative Session.

NOTE: Information on this page was provided by SJ Actuarial Associates.

MEMBERSHIP DATA

Data regarding the membership of TRSL for valuation was furnished by TRSL.

	2006		2005	
ACTIVE MEMBERS	CENSUS	AVERAGE SALARIES	CENSUS	AVERAGE SALARIES
Regular Teachers	71,240	$34,013	76,299	$33,921
University Members	5,656	51,063	5,984	51,767
School Lunch A	339	20,419	428	19,721
School Lunch B	1,221	14,229	1,835	14,145
Post DROP	2,891	48,780	3,097	46,734
TOTAL	81,347	$35,370	87,643	$35,109
Males (%)		16.9%		17.2%
Females (%)		83.1%		82.8%

Valuations' salaries were $2,892,959,473 for 2006 and $3,132,169,323 for 2005.

INACTIVE MEMBERS	2006 CENSUS	2005 CENSUS
Due Refunds	12,749	10,799
Vested & Reciprocals	*7,039	*4,454

	2006		2005	
ANNUITANTS AND SURVIVORS	CENSUS	AVERAGE ANNUAL ANNUITIES	CENSUS	AVERAGE ANNUAL ANNUITIES
Retirees	49,776	$20,473	46,035	$20,083
Disabilities	2,865	9,987	3,836	10,321
Survivors	4,871	14,773	4,654	14,906
DROP	4,042	29,831	4,375	28,996
TOTAL	61,554	$20,148	58,900	$19,700

*Includes members pending retirement status. Pending retirement status is defined as those members who have filed applications for retirement, and are in the process of having their benefits calculated, however no benefits have been calculated or disbursed. As of June 30, 2006, 3,656 members are in pended retirement status compared to 3,105 at June 30, 2005.

NOTE: Information on this page was provided by SJ Actuarial Associates.

HISTORICAL MEMBERSHIP DATA

HISTORY OF ACTIVE MEMBERSHIP DATA FOR LAST 10 YEARS (Dollar amounts in thousands)

YEAR ENDED 6/30	NUMBER OF ACTIVE MEMBERS	PERCENTAGE CHANGE IN MEMBERSHIP	ANNUAL ACTIVE MEMBER PAYROLL	PERCENTAGE CHANGE IN PAYROLL
1997	86,401		$2,337,574	
1998	87,193	0.92%	2,485,058	6.3%
1999	87,129	(0.07%)	2,569,480	3.4%
2000	87,361	0.27%	2,563,634	(0.2%)
2001	86,829	(0.61%)	2,582,830	0.7%
2002	87,356	0.61%	2,777,667	7.5%
2003	87,646	0.33%	2,977,885	7.2%
2004	87,273	(0.43%)	3,017,087	1.3%
2005	87,643	0.42%	3,132,169	3.8%
2006	81,347	(7.18%)	2,892,959	(7.6%)

HISTORY OF ANNUITANTS AND SURVIVOR ANNUITANT MEMBERSHIP FOR LAST 10 YEARS (Dollar amounts in thousands)

YEAR ENDING	TOTAL MEMBERS		MEMBERS ADDED		MEMBERS REMOVED		AVERAGE	ANNUAL	% CHANGE IN
6/30	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT	ANNUITY	ANNUITY	ANNUITY
1997	40,676	$ 588,928	2,925	$ 68,583	1,551	$ 9,538	$14,478	$ 588,928	
1998	42,445	651,822	3,404	71,066	1,635	8,172	15,356	651,822	10.7%
1999	43,955	697,376	3,601	63,788	1,551	18,234	16,166	697,376	7.0%
2000	45,668	744,801	3,344	59,887	1,631	12,462	16,309	744,801	6.8%
2001	47,404	802,202	3,424	64,705	1,688	7,304	16,923	802,202	7.7%
2002	49,053	873,678	3,480	82,817	1,831	11,341	17,811	873,678	8.9%
2003	50,903	924,735	3,455	75,679	1,605	24,622	18,166	924,735	5.8%
2004	52,900	981,646	3,226	73,642	1,229	16,731	18,556	981,646	6.2%
2005	54,525	1,031,768	3,208	73,649	1,583	24,606	18,923	1,031,786	5.1%
2006	57,512	1,119,651	4,148	101,347	1,161	13,482	19,468	1,119,651	8.5%

NOTE: Information on this page was provided by SJ Actuarial Associates.

PRINCIPLE PROVISIONS OF THE PLAN

The Teachers' Retirement System of Louisiana (TRSL) was enacted by Act No. 83 in 1936. Initially, the plan covered classroom teachers (Regular Plan), but membership has expanded to participating agencies, and the merger of School Lunch Employees. Employees of school food services that have not terminated their agreement with the Department of Health, Education and Welfare participate in Plan A. Food service programs of school without agreements enroll employees in Plan B.

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. TRSL 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 700-999 of the Louisiana Revised Statutes. The Board of Trustees is composed of sixteen members; one elected member from each of the nine congressional districts, one elected member from colleges and universities, one elected member from parish and city superintendents of schools, two elected retired members, and three ex officio members. Elected members serve staggered four terms. The Treasurer, Chairman of the House Retirement Committee, Chairman of the State Retirement Committee and State Superintendent of Public Education serve as 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:

REGULAR PLAN	PLAN A	PLAN B
8.0%	9.1%	5.0%

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 Employees' 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 percent annual accrual rate at age 55 with 25 years of service, age 65 with 20 years of service or at any age with 30 years of service. Members may retire with a 2 percent annual accrual rate at age 60 with 10 years of service or at any age with 20 years of service.

Note: Members hired after June 30, 1999 may retire with a 2.5 percent annual accrual rate at age 60 with 10 years of service or at any age with 20 years of service actuarially reduced.

Plan A - A member may retire with a 3.0 percent annual accrual rate at age 55 with 25 years of service, age 60 with 10 years of service or 30 years of service, regardless of age.

PRINCIPLE PROVISIONS OF THE PLAN (continued)

Plan B - A member may retire with a 2.0 percent annual accrual rate at age 55 with 30 years of service, or age 60 with 10 years of service. Benefits are reduced by 3 percent for each year under age 62 at retirement unless the member has 25 years of creditable service.

Benefit Formula

For all plans, retirement benefits are based on a formula which multiplies the final average compensation by the applicable accrual rate, and by the years of creditable service. Final average compensation is obtained by dividing total compensation for the highest successive thirty-six month period.

Payment Options

A retiring member is entitled to receive the maximum benefit payable until the 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.

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 for a period not to exceed the 3rd anniversary of retirement eligibility. 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 five or more years of service credit are eligible for disability retirement benefits if certified by the medical board to be disabled from performing their job.

Regular Plan - An eligible member shall be entitled to a pension equal to 2.5 percent of average compensation; however, in no event shall the disability benefit be less than the lesser of (a) 40 percent of the state minimum salary for a beginning teacher with a bachelor's degree, or (b) 75 percent of average compensation.

Plan A - An eligible member shall be entitled to a service retirement benefit, but not less than 60 percent, nor more than 100 percent of final average compensation.

Plan B - An eligible member shall be entitled to a service retirement benefit, but not less than 30 percent, nor more than 75 percent of final 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) 50 percent of the member's benefit calculated at the 2.5 percent accrual rate for all creditable service.

Each minor child (maximum of 2) shall receive an amount equal to 50 percent of the spouse's benefit. 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 percent of the member's benefit calculated at the 2.5 percent accrual rate for all creditable service.

Post-Retirement Increases

Cost-of-living adjustments (COLA's) 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 percent of the excess investment income over the actuarial valuation rate and is debited 50 percent of the deficit investment income and distributions for COLA's approved by the Board of Trustees as provided by law.

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STATISTICAL SECTION

STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2006 THROUGH JUNE 30, 1997

	2006	2005	2004	2003	2002
Asset					
Cash and cash equivalents	$ 59,572,968	$24,677,100	$30,677,716	$7,808,257	$38,505,718
Receivables					
Member contributions	48,790,153	48,912,587	48,885,390	47,231,216	52,108,891
Employer contributions	72,017,765	72,934,679	64,691,821	57,746,203	54,589,415
ORP contributions retained	3,498,870	3,375,808	2,319,164	2,040,857	1,773,663
Pending Trades	281,323,928	52,151,909	33,712,000	157,176,524	147,253,370
Accrued interest and dividends	44,597,792	42,821,985	40,170,526	41,423,260	47,177,102
Other receivables	29,173,670	2,473,479	1,518,187	1,444,449	1,168,914
Total receivables	479,402,178	222,670,447	191,297,088	307,062,509	304,071,355
Investments, at fair value					
Domestic bonds	2,121,505,657	1,913,039,451	1,659,559,992	1,704,534,901	1,902,126,260
International bonds	449,917,634	497,213,792	560,651,839	416,432,668	472,011,350
Domestic common and preferred stocks	5,630,073,349	5,796,790,444	4,926,745,546	4,468,939,880	4,586,782,472
International common and preferred stocks	3,188,085,062	1,969,333,621	1,454,136,303	1,033,655,198	1,075,238,305
Domestic short-term investments	178,839,314	256,739,631	910,719,505	434,080,034	470,234,146
International short-term investments	24,802,808	40,210,400	0	0	0
Alternative investments	2,162,400,411	2,017,705,199	2,263,185,124	2,318,479,242	2,003,507,564
Total Investments	13,755,624,235	12,491,032,538	11,774,998,309	10,376,121,923	10,509,900,097
Invested securities lending collateral					
Collateral held under domestic securities lending program	1,860,049,089	1,508,767,585	1,593,822,121	3,064,894,429	2,938,825,140
Collateral held under international securities lending program	308,982,174	233,943,130	344,348,505	471,789,763	188,926,541
Total securities lending collateral	2,169,031,263	1,742,710,715	1,938,170,626	3,536,684,192	3,127,751,681
Building at cost, net of accumulated	2,933,836	2,995,632	3,127,099	3,240,290	3,291,565
Equipment, furniture and fixtures, at cost, net of accumulated depreciation	723,281	823,147	937,545	900,324	937,121
Land	858,390	858,390	858,390	858,390	889,816
Total Assets	16,468,146,151	14,485,767,969	13,940,066,773	14,232,675,885	13,985,347,353
Liabilities					
Accounts payable	10,936,762	9,240,444	7,096,770	6,214,751	7,089,866
Benefits payable	5,118,886	2,077,116	2,616,254	3,067,010	2,067,335
Refunds payable	5,369,804	5,385,301	4,875,048	4,730,334	4,191,545
Pending trades payable	269,051,248	39,836,267	92,991,945	160,488,115	214,835,778
Other liabilities	1,025,440	605,537	919,238	813,873	917,097
Total accounts payable and other liabilities	291,502,140	57,144,665	108,499,255	175,314,083	229,101,621
Securities lending collateral					
Obligations under domestic securities lending program	1,860,049,089	1,508,767,585	1,593,822,121	3,064,894,429	2,938,825,140
Obligations under international securities lending program	308,982,174	233,943,130	344,348,505	471,789,763	188,926,541
Total securities lending collateral	2,169,031,263	1,742,710,715	1,938,170,626	3,536,684,192	3,127,751,681
Total liabilities	2,460,533,403	1,799,855,380	2,046,669,881	3,711,998,275	3,356,853,302
Net assets held in trust for pension benefits	$14,007,612,748	$12,685,912,589	$11,893,396,892	$10,520,677,610	$10,628,494,051

STATEMENTS OF PLAN NET ASSETS (continued)
AS OF JUNE 30, 2006 THROUGH JUNE 30, 1997

	2001	2000	1999	1998	1997
Asset					
Cash and cash equivalents	$ 34,067,604	$ 76,563,877	$ 26,814,445	$ 10,664,180	$ 6,617,033
Receivables					
Member contributions	47,661,308	44,975,206	38,523,001	36,450,281	32,479,877
Employer contributions	51,136,424	58,860,987	68,730,284	67,099,754	60,218,996
ORP contributions retained	1,918,443	2,017,245	2,016,327	1,804,612	1,612,197
Pending Trades	230,779,724	116,274,494	77,063,815	116,912,814	111,894,953
Accrued interest and dividends	49,568,799	65,091,918	66,200,600	69,519,425	58,319,693
Other receivables	1,513,198	1,957,455	1,543,783	969,344	802,211
Total receivables	382,577,896	289,177,305	254,077,810	292,756,230	265,327,927
Investments, at fair value					
Domestic bonds	1,675,616,284	1,443,147,839	1,656,281,321	1,621,609,160	1,850,086,735
International bonds	620,253,212	1,062,108,327	1,119,040,286	1,062,873,639	918,424,528
Domestic common and preferred stocks	5,304,131,380	5,530,165,003	5,351,480,155	5,202,408,728	4,306,158,097
International common and preferred stocks	1,349,446,396	2,015,682,285	1,465,452,007	1,422,747,827	889,165,563
International futures and options	0	0	0	0	0
Domestic short-term investments	470,686,508	525,024,201	444,791,846	900,788,443	353,673,294
International short-term investments	0	49,466,390	78,369,738	9,434,521	9,677,622
Alternative investments	2,286,753,704	1,850,828,055	1,083,650,711	601,550,022	344,491,091
Total Investments	11,706,887,484	12,476,422,100	11,199,066,064	10,821,412,340	8,671,676,930
Invested securities lending collateral					
Collateral held under domestic securities lending program	2,819,398,141	490,061,426	600,370,800	227,003,113	754,870,525
Collateral held under international securities lending program	431,905,885	803,922,551	784,220,679	817,311,989	336,003,178
Total securities lending collateral	3,251,304,026	1,293,983,977	1,384,591,479	1,044,315,102	1,090,873,703
Building at cost, net of accumulated depreciation	3,255,087	3,365,190	3,484,736	3,573,741	3,684,228
Equipment, furniture and fixtures, at cost, net of accumulated depreciation	1,149,829	904,520	752,034	717,477	769,162
Land	889,816	889,816	889,816	889,816	890,741
Total Assets	15,380,131,742	14,141,306,785	12,869,676,384	12,174,328,886	10,039,839,724
Liabilities					
Accounts payable	9,288,515	12,551,351	9,891,518	13,294,573	7,840,545
Benefits payable	2,040,453	1,610,336	1,301,052	617,725	1,385,653
Refunds payable	3,953,477	3,615,639	3,180,968	2,949,271	2,577,753
Pending trades payable	257,744,890	140,694,287	164,053,534	664,727,380	62,025,176
Other liabilities	829,785	836,756	689,189	507,775	536,371
Total accounts payable and other liabilities	273,857,120	159,308,369	179,116,261	682,096,724	74,365,498
Securities lending collateral					
Obligations under domestic securities lending program	2,819,398,141	490,061,426	600,370,800	227,003,113	754,870,525
Obligations under international securities lending program	431,905,885	803,922,551	784,220,679	817,311,989	336,003,178
Total securities lending collateral	3,251,304,026	1,293,983,977	1,384,591,479	1,044,315,102	1,090,873,703
Total liabilities	3,525,161,146	1,453,292,346	1,563,707,740	1,726,411,826	1,165,239,201
Net assets held in trust for pension benefits	$11,854,970,596	$12,688,014,439	$11,305,968,644	$10,447,917,060	$ 8,874,600,523

STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 THROUGH JUNE 30, 1997

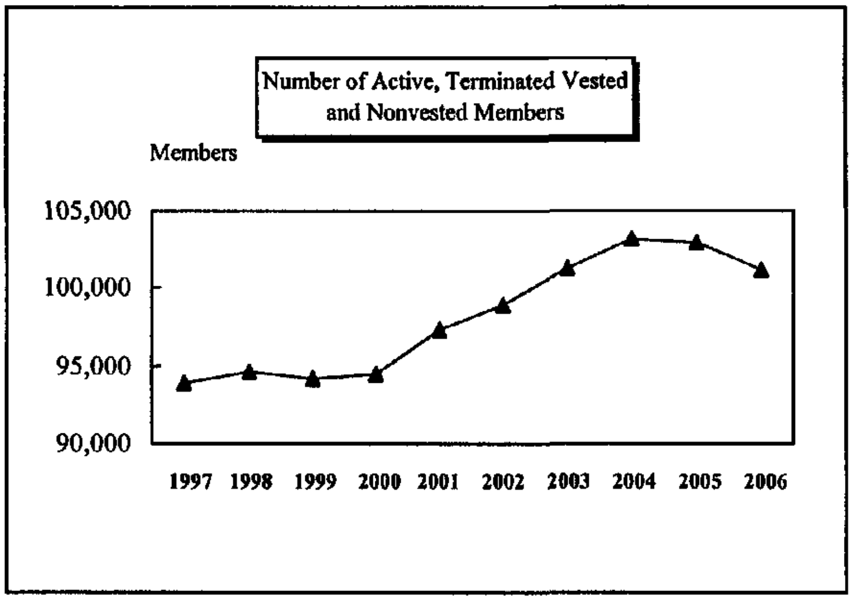
	2006	2005	2004	2003	2002
Additions					
Contributions					
Member contributions	$ 258,412,024	$ 270,619,181	$ 264,999,131	$ 251,297,401	$ 246,119,537
Employer contributions	529,983,453	517,815,361	444,104,350	421,838,213	400,478,248
Total contributions	788,395,477	788,434,542	709,103,481	673,135,614	646,597,785
ORP contributions retained	49,293,547	48,754,970	35,244,313	29,499,096	27,196,232
Investment income:					
From investment activities					
Net appreciation (depreciation) in fair value of domestic investments	809,290,218	663,699,379	1,164,647,179	(9,358,002)	(1,141,008,157)
Net appreciation (depreciation) in fair value of international investments	584,857,302	197,833,593	323,405,540	(3,830,620)	(146,482,391)
Domestic interest	135,047,865	111,850,200	110,597,008	120,174,045	141,728,180
International interest	27,792,233	29,898,190	23,800,877	30,745,264	32,004,011
Domestic dividends	77,813,221	84,579,303	64,865,361	59,353,555	64,226,682
International dividends	68,564,525	31,583,991	41,800,161	28,041,533	23,023,499
Alternative investment income	97,733,026	108,622,676	81,696,047	44,050,485	137,200,613
Commission rebate income	675,608	571,219	1,078,487	1,026,354	1,649,282
Total investment income	1,801,773,998	1,228,638,551	1,811,890,660	270,202,614	(887,658,281)
Investment activity expenses:					
International investment expenses	(9,493,180)	(5,710,058)	(4,995,570)	(2,530,171)	(2,618,482)
Alternative investment expenses	(28,474,213)	(64,918,175)	(49,401,029)	(31,682,592)	(41,418,046)
Custodian fees	(761,689)	(760,908)	(786,062)	(800,000)	(800,000)
Performance consultant fees	(1,077,254)	(618,996)	(507,749)	(279,786)	(252,000)
Trade cost analysis fees	(40,000)	(10,000)	(40,000)	(40,000)	(40,000)
Advisor fees	(29,802,772)	(26,020,649)	(23,311,668)	(19,283,122)	(22,812,775)
Total investment expenses	(69,649,108)	(98,038,786)	(79,042,078)	(54,615,671)	(67,941,303)
Net income from investing activities	1,732,124,890	1,130,599,765	1,732,848,582	215,586,943	(955,599,584)
From securities lending activities					
Securities lending income	22,168,519	24,508,470	13,854,504	16,602,783	20,960,004
Securities lending expenses:					
Fixed	(11,354,478)	(12,174,022)	(6,053,776)	(9,749,608)	(11,104,163)
Equity	(249,909)	(249,954)	(249,934)	(249,933)	(249,706)
International	(5,024,341)	(7,860,336)	(1,847,440)	(824,609)	(2,677,010)
Total securities lending activities expenses	(16,628,728)	(20,284,312)	(8,151,150)	(10,824,150)	(14,030,879)
Net income from securities lending activities	5,539,791	4,224,158	5,703,354	5,778,633	6,929,125
Total net investment income (loss)	1,737,664,681	1,134,823,923	1,738,551,936	221,365,576	(948,670,459)
Other operating revenues	3,208,183	3,425,773	3,217,889	4,976,629	1,787,499
Total additions	2,578,561,888	1,975,439,208	2,486,117,619	928,976,915	(273,088,943)
Deductions					
Retirement benefits	1,204,472,977	1,139,814,334	1,075,298,667	1,003,327,453	920,593,341
Refunds of contributions	38,538,125	30,454,374	26,804,821	22,287,120	23,432,296
Administrative expenses	13,362,286	12,178,533	10,786,450	10,688,003	8,886,231
Depreciation expense	488,341	476,270	508,399	490,780	475,734
Total deductions	1,256,861,729	1,182,923,511	1,113,398,337	1,036,793,356	953,387,602
Net increase (decrease)	1,321,700,159	792,515,697	1,372,719,282	(107,816,441)	(1,226,476,545)
Net assets held in trust for pension benefits					
Beginning of year	12,685,912,589	11,893,396,892	10,520,677,610	10,628,494,051	11,854,970,596
End of year	$14,007,612,748	$12,685,912,589	$11,893,396,892	$10,520,677,610	$10,628,494,051

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)
FOR THE YEARS ENDED JUNE 30, 2006 THROUGH JUNE 30, 1997

	2001	2000	1999	1998	1997
Additions					
Contributions					
Member contributions	$ 226,754,298	$ 224,684,434	$ 216,102,491	$ 208,275,106	$ 191,704,402
Employer contributions	401,243,346	423,690,949	442,793,009	422,452,766	387,153,226
Total contributions	627,997,644	648,375,383	658,895,500	630,727,872	578,857,628
ORP contributions retained	27,869,220	29,274,452	30,017,065	27,318,857	24,551,761
Investment income:					
From investment activities					
Net appreciation (depreciation) in fair value of domestic investments	(284,368,048)	778,721,458	601,181,137	1,295,107,488	899,348,424
Net appreciation (depreciation) in fair value of international investments	(637,986,221)	422,921,458	35,257,940	44,441,461	91,069,068
Domestic interest	152,499,662	141,621,871	139,410,346	140,765,294	131,068,805
International interest	49,391,412	78,593,438	80,464,211	62,244,912	73,527,954
Domestic dividends	65,715,460	60,573,874	58,274,331	55,091,419	49,788,906
International dividends	28,808,467	25,019,498	23,424,136	23,044,305	15,282,750
Alternative investment income	73,591,989	45,886,076	16,052,573	9,372,504	3,062,379
Miscellaneous foreign income	109	0	0	55,265	0
Commission rebate income	1,954,976	1,555,065	1,812,934	1,135,441	863,711
Total investment income	(550,392,194)	1,554,892,738	955,877,608	1,631,258,089	1,264,011,997
Investment activity expenses:					
Domestic investment expenses	0	0	0	(3,377)	(42)
International investment expenses	(3,092,036)	(2,417,575)	(1,896,400)	(2,336,368)	(1,552,121)
Alternative investment expenses	(21,519,745)	(8,035,266)	(6,268,112)	(6,682,842)	(4,726,932)
Custodian fees	(800,000)	(800,000)	(697,344)	(1,293,672)	(1,707,790)
Performance consultant fees	(250,000)	(182,001)	(175,500)	0	0
Trade cost analysis fees	0	0	0	0	0
Advisor fees	(26,103,079)	(24,803,085)	(20,167,356)	(19,719,262)	(16,690,092)
Total investment expenses	(51,764,860)	(36,237,927)	(29,204,712)	(30,035,521)	(24,676,977)
Net income from investing activities	(602,157,054)	1,518,654,811	926,672,896	1,601,222,568	1,239,335,020
From securities lending activities					
Securities lending income	50,709,086	59,961,994	59,035,769	75,302,913	68,457,484
Securities lending expenses:					
Fixed	(15,769,655)	(14,838,553)	(14,357,718)	(32,416,970)	(41,285,338)
Equity	(249,246)	(249,436)	(197,298)	(373,580)	(396,343)
International	(27,847,838)	(39,123,376)	(39,214,613)	(36,993,442)	(21,818,959)
Total securities lending activities expenses	(43,866,739)	(54,211,365)	(53,769,629)	(69,783,992)	(63,500,640)
Net income from securities lending activities	6,842,347	5,750,629	5,266,140	5,518,921	4,956,844
Total net investment income (loss)	(595,314,707)	1,524,405,440	931,939,036	1,606,741,489	1,244,291,864
Other operating revenues	988,233	1,365,976	811,363	741,679	924,648
Total additions	61,540,390	2,203,421,251	1,621,662,964	2,265,529,897	1,848,625,901
Deductions					
Retirement benefits	858,979,906	791,183,546	735,328,349	664,147,264	624,736,789
Refunds of contributions	26,948,712	22,458,244	21,238,599	21,360,841	20,869,261
Administrative expenses	8,220,487	7,369,407	6,613,935	6,173,891	5,565,516
Depreciation expense	435,128	364,259	430,497	531,364	418,534
Total deductions	894,584,233	821,375,456	763,611,380	692,213,360	651,590,100
Net increase (decrease)	(833,043,843)	1,382,045,795	858,051,584	1,573,316,537	1,197,035,801
Assets held in trust for pension benefits					
Beginning of year	12,688,014,439	11,305,968,644	10,447,917,060	8,874,600,523	7,677,564,722
End of year	$11,854,970,596	$12,688,014,439	$11,305,968,644	$10,447,917,060	$ 8,874,600,523

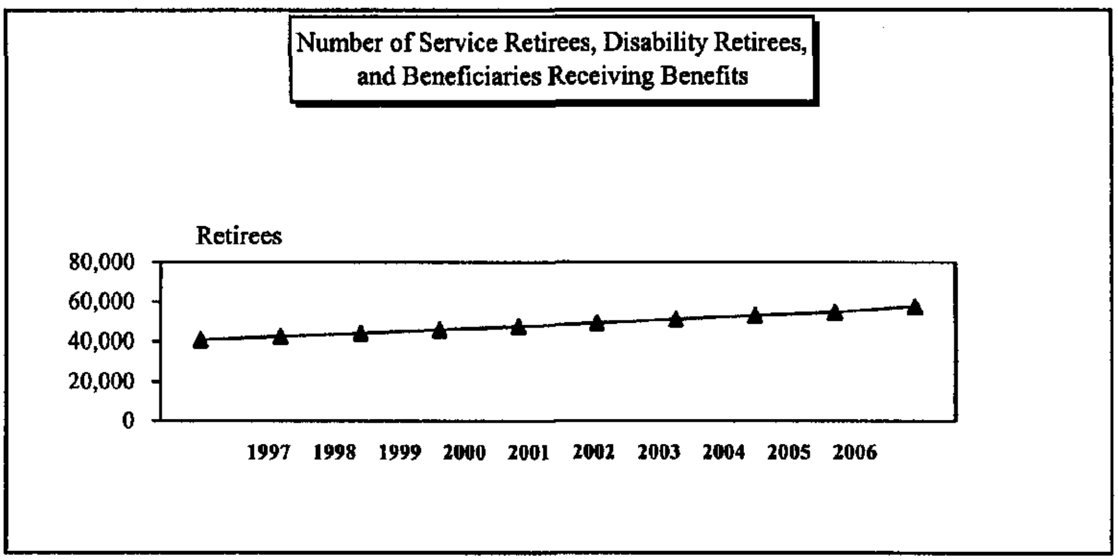
NUMBER OF ACTIVE, TERMINATED VESTED AND NONVESTED MEMBERS

Fiscal Year	Members	% Increase Each Year
1996-1997	93,927	
1997-1998	94,651	0.8%
1998-1999	94,219	(0.5%)
1999-2000	94,504	0.3%
2000-2001	97,293	3.0%
2001-2002	98,861	1.6%
2002-2003	101,218	2.4%
2003-2004	103,125	1.9%
2004-2005	102,896	(0.2%)
2005-2006	101,135	(1.7%)



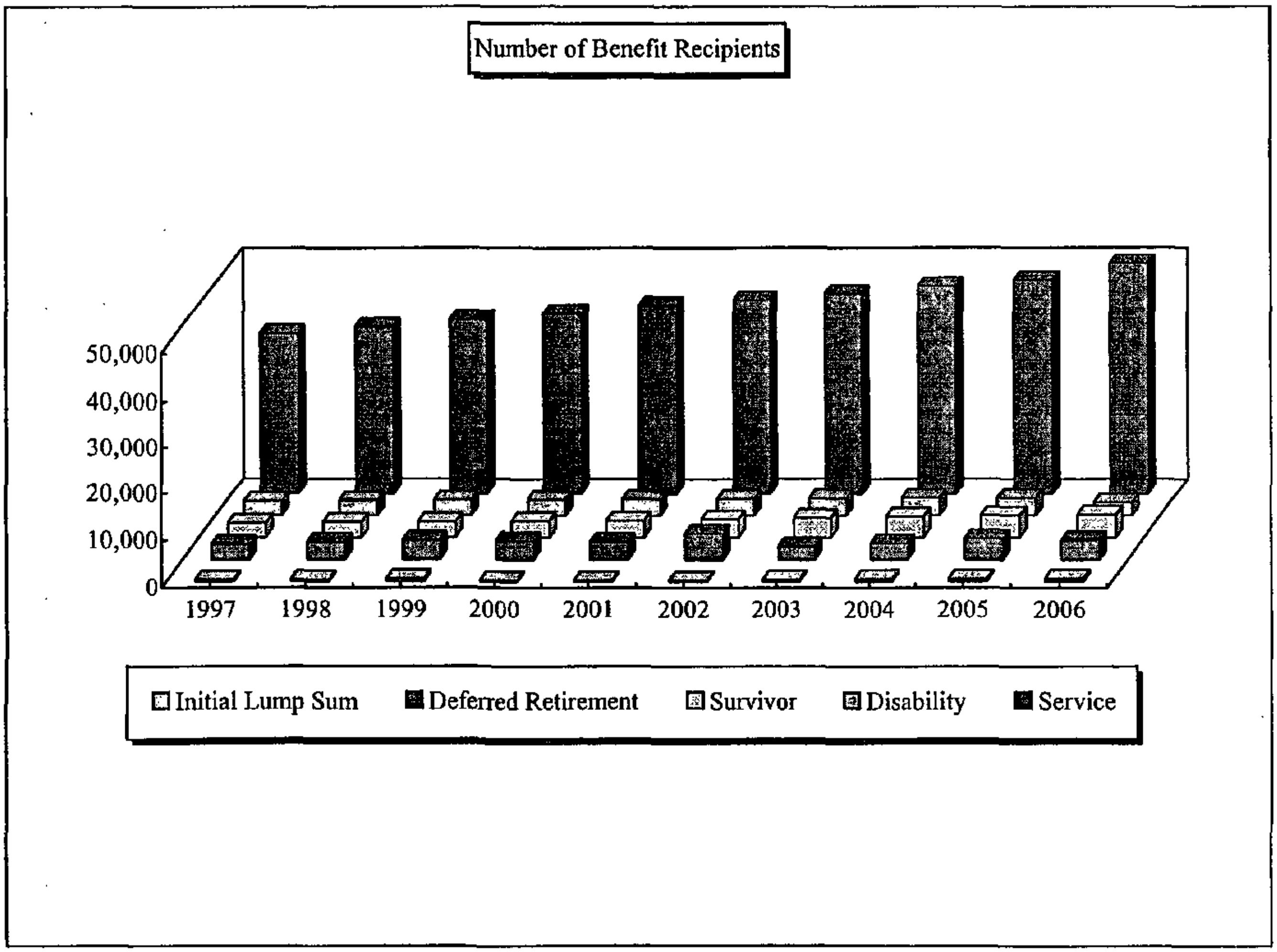
NUMBER OF SERVICE RETIREES, DISABILITY RETIREES, AND BENEFICIARIES RECEIVING BENEFITS

Fiscal Year	Retirees	% Increase Each Year
1996-1997	40,676	
1997-1998	42,445	4.4%
1998-1999	43,955	3.6%
1999-2000	45,668	3.9%
2000-2001	47,404	3.8%
2001-2002	49,053	3.5%
2002-2003	50,903	3.8%
2003-2004	52,900	3.9%
2004-2005	54,525	3.1%
2005-2006	57,512	5.5%



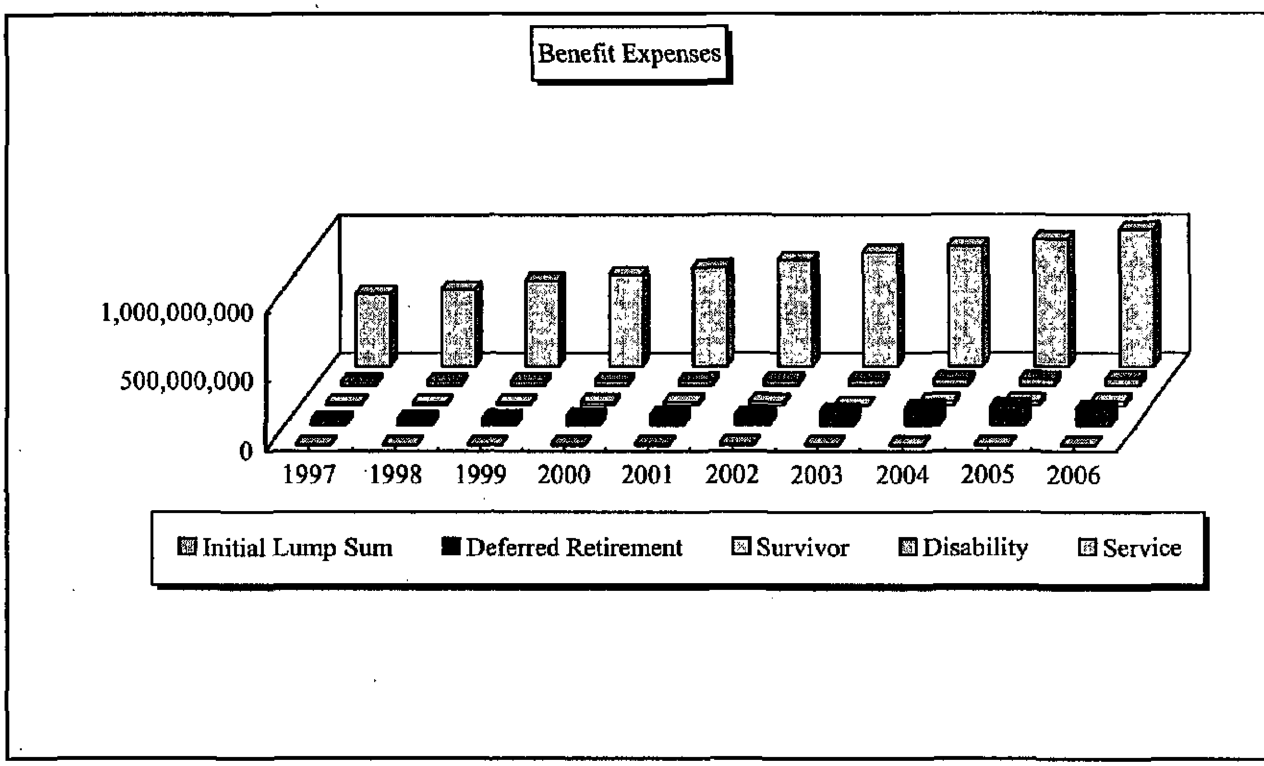
NUMBER OF BENEFIT RECIPIENTS

Fiscal Year	Service	Disability	Survivor	Deferred Retirement	Initial Lump Sum	Total
1996-1997	34,412	3,173	3,091	3,178	412	44,266
1997-1998	35,866	3,311	3,268	3,698	461	46,604
1998-1999	37,341	3,354	3,260	4,038	654	48,647
1999-2000	38,715	3,505	3,448	3,893	247	49,808
2000-2001	40,313	3,555	3,536	3,695	266	51,365
2001-2002	41,566	3,622	3,865	5,496	248	54,797
2002-2003	43,050	3,698	4,155	2,722	437	54,062
2003-2004	44,690	3,797	4,413	3,409	547	56,856
2004-2005	46,035	3,836	4,654	4,375	587	59,487
2005-2006	49,776	2,865	4,871	4,042	627	62,181



BENEFIT EXPENSES

Fiscal Year	Service	Disability	Survivor	Deferred Retirement	Initial Lump Sum	Total
1996-1997	$531,639,544	$28,893,453	$17,336,072	$39,260,488	$ 7,607,232	$ 624,736,789
1997-1998	562,679,269	30,580,395	18,348,237	46,266,624	6,272,739	664,147,264
1998-1999	622,387,271	33,825,395	20,295,237	51,764,526	7,055,920	735,328,349
1999-2000	665,449,247	36,165,720	21,699,432	60,169,167	7,699,980	791,183,546
2000-2001	717,799,621	39,010,849	23,406,509	69,087,607	9,675,320	858,979,906
2001-2002	773,311,519	42,027,800	25,216,680	69,718,252	10,319,090	920,593,341
2002-2003	826,661,700	44,927,266	26,956,360	96,539,409	8,242,718	1,003,327,453
2003-2004	870,865,365	47,329,639	28,397,784	122,905,311	5,800,568	1,075,298,667
2004-2005	921,584,123	50,086,094	30,051,656	131,811,600	6,280,861	1,139,814,334
2005-2006	991,166,824	53,867,762	32,320,657	121,703,237	5,414,497	1,204,472,977



AVERAGE MONTHLY PENSION BENEFIT

Fiscal Year	Average Monthly Benefit	% Increase Each Year
1996-1997	$1,184	
1997-1998	1,201	1.4%
1998-1999	1,283	6.8%
1999-2000	1,320	2.9%
2000-2001	1,400	6.1%
2001-2002	1,444	3.1%
2002-2003	1,506	4.3%
2003-2004	1,535	1.9%
2004-2005	1,569	2.2%
2005-2006	1,615	2.9%

NUMBER OF REFUNDS OF CONTRIBUTIONS

Fiscal Year	Number of Refunds	% Increase Each Year
1996-1997	5,540	
1997-1998	4,534	(18.2%)
1998-1999	4,160	(8.2%)
1999-2000	3,648	(12.3%)
2000-2001	3,848	5.5%
2001-2002	5,191*	34.9%
2002-2003	5,422*	4.5%
2003-2004	5,657*	4.3%
2004-2005	6,572*	16.2%
2005-2006	8,718**	32.7%

NUMBER OF STAFF POSITIONS

Fiscal Year	Staff	% Increase Each Year
1996-1997	116	
1997-1998	116	0.0%
1998-1999	122	5.2%
1999-2000	127	4.1%
2000-2001	134	5.5%
2001-2002	143	6.7%
2002-2003	159	11.2%
2003-2004	172	8.2%
2004-2005	173	0.6%
2005-2006	173	0.0%

*Includes refunds of retirees who returned to work.

**Includes refunds of retirees who returned to work and 827 refunds under the provisions of the Gulf Opportunity Zone Act of 2005.

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	ORP Contributions Retained	Act 642 of 2006	Net Investment Income	Other Operating Revenues	Total
1996-1997	$191,704,402	$387,153,226	$24,551,761		$1,332,544,481	$ 924,648	$1,936,878,518
1997-1998	208,275,106	422,452,766	27,318,857		1,606,741,489	741,679	2,265,529,897
1998-1999	216,102,491	442,793,009	30,017,065		931,939,036	811,363	1,621,662,964
1999-2000	224,684,434	423,690,949	29,274,452		1,524,405,440	1,365,976	2,203,421,251
2000-2001	226,754,298	401,243,346	27,869,220		(595,314,707)	988,233	61,540,390
2001-2002	246,119,537	400,478,248	27,196,232		(948,670,459)	1,787,499	(273,088,943)
2002-2003	251,297,401	421,838,213	29,499,096		221,365,576	4,976,629	928,976,915
2003-2004	264,999,131	444,104,350	35,244,313		1,738,551,936	3,217,889	2,486,117,619
2004-2005	270,619,181	517,815,361	48,754,970		1,134,823,923	3,425,773	1,975,439,208
2005-2006	258,412,024	503,583,453	49,293,547	$26,400,000	1,737,664,681	3,208,183	2,578,561,888

EXPENSES BY TYPE

Fiscal Year	Benefits	Refunds	Administrative Expenses	Depreciation Expense	Total
1996-1997	$ 624,736,789	$20,869,261	$ 5,565,516	$418,534	$ 651,590,100
1997-1998	664,147,264	21,360,841	6,173,891	531,364	692,213,360
1998-1999	735,328,349	21,238,599	6,613,935	430,497	763,611,380
1999-2000	791,183,546	22,458,244	7,369,407	364,259	821,375,456
2000-2001	858,979,906	26,948,712	8,220,487	435,128	894,584,233
2001-2002	920,593,341	23,432,296	8,886,231	475,734	953,387,602
2002-2003	1,003,327,453	22,287,120	10,688,003	490,780	1,036,793,356
2003-2004	1,075,298,667	26,804,821	10,786,450	508,399	1,113,398,337
2004-2005	1,139,814,334	30,454,374	12,178,533	476,270	1,182,923,511
2005-2006	1,204,472,977	38,538,125	13,362,286	488,341	1,256,861,729

SCHEDULE OF PARTICIPATING EMPLOYERS

SCHOOL BOARDS
Acadia Parish School Board
Allen Parish School Board
Ascension Parish School Board
Assumption Parish School Board
Avoyelles Parish School Board
Beauregard Parish School Board
Bienville Parish School Board
Bogalusa City Schools
Bossier Parish School Board
Caddo Parish School Board
Calcasieu Parish School Board
Caldwell Parish School Board
Cameron Parish School Board
Catahoula Parish School Board
City of Baker School Board
Claiborne Parish School Board
Concordia Parish School Board
DeSoto Parish School Board
East Baton Rouge Parish School Board
East Carroll Parish School Board
East Feliciana Parish School Board
Evangeline Parish School Board
Franklin Parish School Board
Grant Parish School Board
Iberia Parish School Board
Iberville Parish School Board
Jackson Parish School Board
Jefferson Davis Parish School Board
Jefferson Parish School Board
Lafayette Parish School Board
Lafourche Parish School Board
LaSalle Parish School Board
Lincoln Parish School Board
Livingston Parish School Board
Madison Parish School Board
Monroe City Schools
Morehouse Parish School Board
Natchitoches Parish School Board
Orleans Parish School Board
Ouachita Parish School Board
Plaquemines Parish School Board
Pointe Coupee Parish School Board
Rapides Parish School Board
Red River Parish School Board
Richland Parish School Board
Sabine Parish School Board
Saint Bernard Parish School Board
Saint Charles Parish School Board
Saint Helena Parish School Board
Saint James Parish School Board
Saint John the Baptist Parish School Board
Saint Landry Parish School Board
Saint Martin Parish School Board
Saint Mary Parish School Board
Saint Tammany Parish School Board
Tangipahoa Parish School Board
Tensas Parish School Board
Terrebonne Parish School Board
Union Parish School Board
Vermilion Parish School Board
Vernon Parish School Board
Washington Parish School Board
Webster Parish School Board

SCHOOL BOARDS (continued)
West Baton Rouge Parish School Board
West Carroll Parish School Board
West Feliciana Parish School Board
Winn Parish School Board
Zachary Community School Board

COLLEGES AND UNIVERSITIES
Baton Rouge Community College
Bossier Parish Community College
Delgado Community College
Elaine P. Nunez Community College
Grambling State University
L.E. Fletcher Technical Community College
Louisiana Community and Technical College System
Louisiana Delta Community College
Louisiana State University Medical Center-New Orleans
Louisiana State University Medical Center-Shreveport
Louisiana State University-Baton Rouge
Louisiana State University-Shreveport
Louisiana Technical University
Louisiana Technicalnical College
McNeese State University
Nicholls State University
Northwestern State University of Louisiana
River Parish Community College
South Louisiana Community College
Southeastern Louisiana University
Southern University and A&M College-Baton Rouge
Southern University and A&M College-New Orleans
Southern University Shreveport-Bossier City
Sowela Technical Community College
University of Louisiana at Lafayette
University of Louisiana at Monroe
University of New Orleans

CHARTER SCHOOLS
Advocates for Academic Excellence in Education, Inc.
Advocates for Arts Based Education, Corp.
Advocates for Science and Math, Inc.
Algiers Charter School
Avoyelles Public Charter School Inc
Baton Rouge Charter High School
Belle Chasse Academy
Council for Quality Education
Delhi Charter School
French and Montessori, Inc.
Glenco Charter School
Kipp Phillip's Academy
Middle School Advocates, Inc.
New Vision Learning Academy

STATE AGENCIES
Board of Supervisors – University of Louisiana System
Capital Area Human Services District
Charity Hospital – New Orleans
Department of Revenue and Taxation
EA Conway Medical Center
Earl K. Long Medical Center
Eastern Louisiana Mental Health System
Hammond Developmental Center
Huey P. Long – Medical Center
Leonard J. Chabert Medical Center
Louisiana Board of Regents

SCHEDULE OF PARTICIPATING EMPLOYERS (continued)

STATE AGENCIES (continued)

Louisiana Department of Agriculture and Forestry
Louisiana Department of Corrections
Louisiana Department of Culture, Recreation and Tourism
Louisiana Department of Education
Louisiana Department of Environmental Quality
Louisiana Department of Health and Hospitals
Louisiana Department of Insurance
Louisiana Department of Justice
Louisiana Department of Labor
Louisiana Department of Military
Louisiana Department of Public Safety
Louisiana Department of Social Services
Louisiana Department of Transportation and Development
Louisiana Department of Veterans Affairs
Louisiana Department of Wildlife and Fisheries
Louisiana Division of Administration
Louisiana House of Representatives
Louisiana Resource Center for Educators
Louisiana School for Math, Science, and Arts
Louisiana School for the Deaf
Louisiana School for the Visually Impaired
Louisiana Special Education Center
Louisiana State Board of Elementary and Secondary Education
Louisiana State Board of Practical Nurse Examiners
Louisiana State Employees' Retirement System
Louisiana State Law Institute
Louisiana State Senate
Louisiana State Universities – Health Sciences Center
Louisiana State University/Lallie Kemp Medical Center
Louisiana Systemic Initiative Program
Louisiana Universities Marine Consortium
Metropolitan Developmental Center
Office of Financial Institutions
Office of Student Financial Assistance
Office of the Legislative Auditor
Office of Youth Development
Pinecrest Developmental Center
Secretary of State
Southeast Louisiana Hospital
Southwest Louisiana Developmental Center
Special Education District #1
State Employees Group Benefits Program
Teachers' Retirement System of Louisiana
University Medical Center-Lafayette
W. O. Moss Regional Hospital
Ware Youth Center
Washington-Saint Tammany Regional Medical Center

OTHER

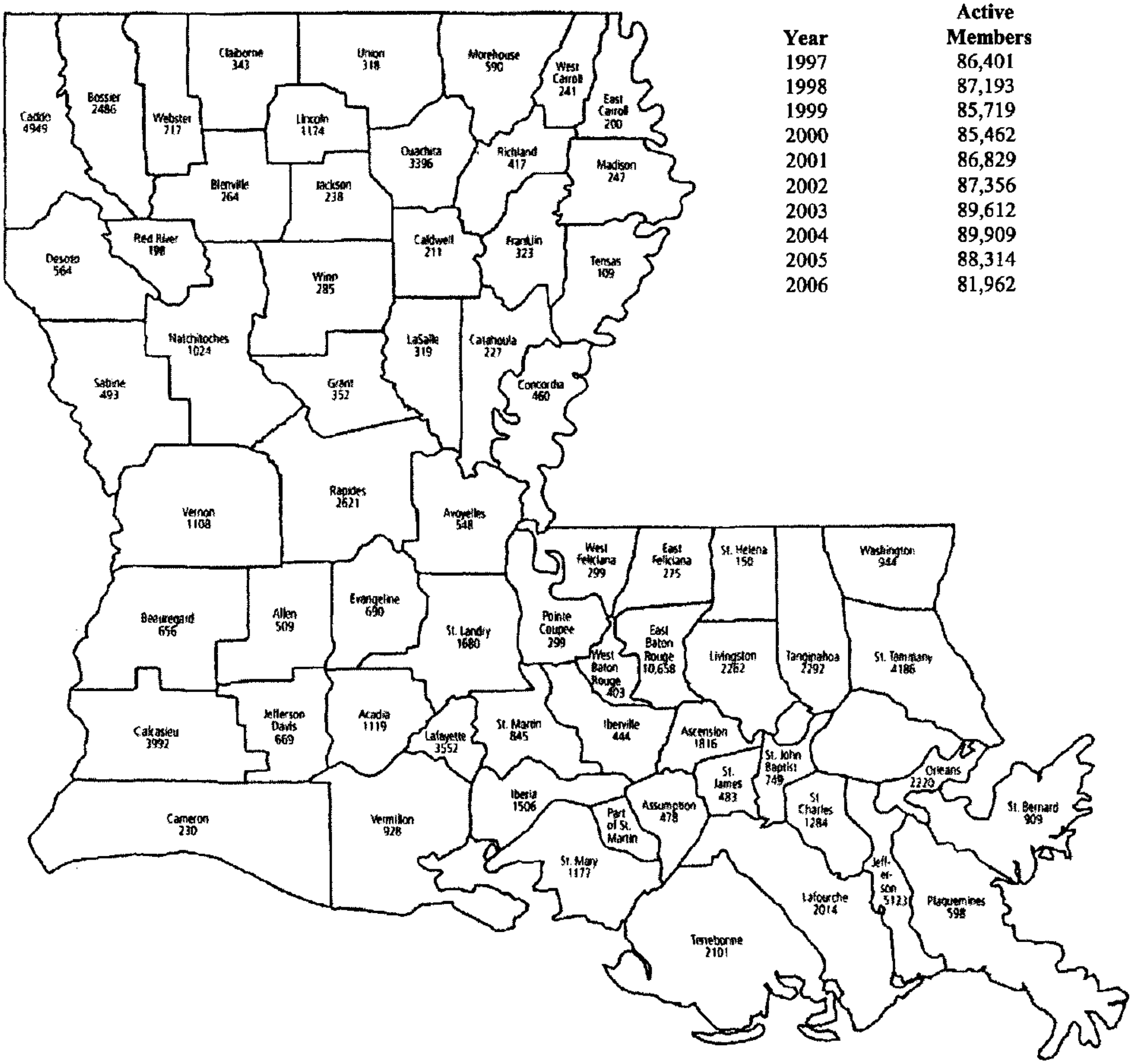
Associated Professional Educators of Louisiana
Court of Appeal, Fourth Circuit
Florida Parish Human Service Authority
Louisiana Association of Educators
Louisiana Federation of Teachers
Louisiana High School Athletic Association
Metropolitan Human Services
Monroe Federation of Teachers and School Employees
New Orleans Center for Creative Arts
Rapides Federation of Teachers/School Employees
Recovery School District
Saint Bernard Port, Harbor and Terminal District
Saint Tammany Federation of Teachers
United Teachers of New Orleans
UTNO Health and Welfare Fund
Webster Parish Sales Tax Commission

STATE OF LOUISIANA

TOTAL ACTIVE MEMBERS – 81,962

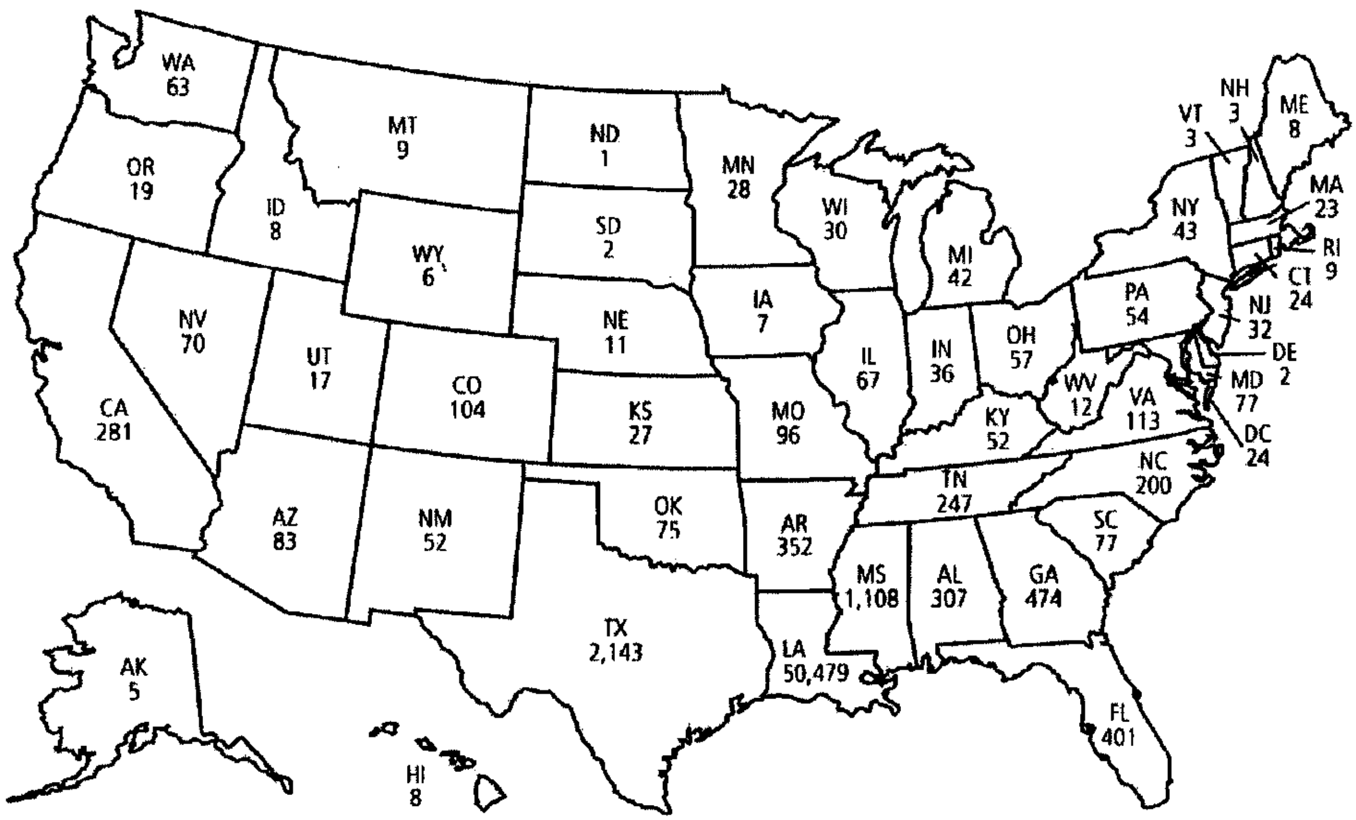
*INCLUDES ALL EMPLOYING AGENCIES LOCATED WITHIN EACH PARISH

Year	Active Members
1997	86,401
1998	87,193
1999	85,719
2000	85,462
2001	86,829
2002	87,356
2003	89,612
2004	89,909
2005	88,314
2006	81,962



LOCATION OF TRSL RETIREES WORLDWIDE

(Total Retirees at June 30, 2006 – 57,512)



U.S. OVERSEAS MILITARY BASES	6
U.S. POSSESSIONS	
GUAM	1
PUERTO RICO	1
VIRGIN ISLANDS	1
FOREIGN COUNTRIES	
AUSTRALIA	2
CANADA	4
CENTRAL AMERICA	1
COSTA RICA	1
CZECH REPUBLIC	2
FINLAND	1
GERMANY	7
GREECE	1
IRELAND	1
ISRAEL	1
MEXICO	2
PAKISTAN	2
PORTUGAL	1
SINGAPORE	1
SWITZERLAND	1
THAILAND	1
TURKEY	1
UNITED KINGDOM	2

Year	Retired Members
1997	40,676
1998	42,445
1999	43,955
2000	45,668
2001	47,426
2002	49,053
2003	50,903
2004	52,900
2005	54,525
2006	57,512

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ALTERNATIVE RETIREMENT PLANS SECTION

OPTIONAL RETIREMENT PLAN

The Optional Retirement Plan (ORP) was created by Louisiana. Revised Statutes 11:921 and implemented on July 1, 1990. This plan was designed to provide certain academic and unclassified employees of public institutions of higher education an optional method of funding for their retirement. Participants who are eligible for membership in the Teachers' Retirement System of Louisiana (TRSL) can make an irrevocable election to participate in the ORP, a defined contribution plan, rather than the TRSL defined benefit plan.

The ORP was modified by legislation passed in the 1995 session. The new act allowed ORP members to continue their participation in the ORP if they assumed a position at a school board or other agency that was covered by TRSL even though that agency was not an institution of higher education. Prior to the passage of this legislation, ORP members who terminated employment at an institution of higher education were ineligible to continue their ORP membership if they were employed outside higher education. This presented an inequity for those members as they were ineligible to ever participate in the regular retirement plan of TRSL.

The ORP provides for portability of assets and full and immediate vesting of all contributions submitted on behalf of the affected employees to the approved providers. These providers are selected by the Board of Trustees of Teachers' Retirement System of Louisiana. Monthly contributions, remitted by both the employers and the employees, are invested to provide the employees with future retirement benefits. The amount of these benefits is entirely dependent upon the total contributions and investment returns accumulated during the employees' working lifetime.

Employees participating in the ORP select individual annuity contracts which may be fixed or variable or both. In the fixed annuity, contributions are allowed to accumulate over a period of years until retirement and earn interest at varying amounts dependent upon prevailing market rates. As a conservative investment, the fixed annuity provides for both the return of principal and payments of interest.

Although the variable annuity may involve additional risk, it can also provide the employees with more opportunities to enhance their investment returns. Contributions can be invested in a variety of assets, such as stock funds, bond funds, money market accounts, etc. As the cash value of the variable annuity is dependent upon the investment results of the selected funds, a member's account value can fluctuate from year to year.

At June 30, 2006, and 2005, employees joining ORP consisted of:

	2006	2005
Members of TRSL joining ORP	86	76
New employees joining ORP	904	1,440
	990	1,516

At June 30, 2006, and 2005, the amounts transferred to ORP were:

	2006	2005
Amounts previously held in TRSL reserves	$ 369,138	$ 245,541
Contributions	72,879,692	73,223,091
	$73,248,830	$73,468,632

At June 30, 2006, and 2005, member and employer contribution rates were:

Member	2006	2005
Member contribution rate (applicable for ORP transfers)	7.900%	7.900%
Member contribution rate (administrative fee - TRSL)	0.100%	0.100%
	8.000%	8.000%

Employer	2006	2005
Employer contribution rate (normal cost is applicable for ORP transfers)	6.507%	6.258%
Unfunded rate (retained by TRSL)	9.394%	9.242%
	15.900%	15.500%

DEFERRED RETIREMENT OPTION PLAN (DROP)

The Deferred Retirement Option Plan (DROP) was first implemented on July 1, 1992 with the passage of Louisiana Revised Statutes 11:786. Under DROP, a member is allowed to accumulate retirement benefits in a special reserve fund and still continue employment and draw full salary. During this period of employment, no contributions are made to TRSL either by the member or by the employing agency. After termination of employment, the member not only receives regular monthly retirement benefits, but also receives the amount accumulated in the DROP fund, either as a total distribution or as an additional monthly annuity.

In the original DROP, participation in the program could not exceed two years; however, the DROP was modified on January 1, 1994, to allow for a three-year period of participation. This longer period of participation permits the members to accumulate additional funds in planning for eventual retirement from the work force.

All monthly deposits to the DROP accounts are sheltered from taxes until withdrawal from the account after termination of employment. If the withdrawal is made in a single sum or for a period of less than ten years, the member has the option of rolling over the withdrawn funds to an individual retirement account (I.R.A.), individual retirement annuity, or another qualified plan. Certain restrictions apply. A careful study of all provisions of the DROP should be made by the member in order to determine what is best for his particular situation. TRSL suggests that members consult their tax accountants before making a withdrawal selection.

All information printed above is presented as a summary only and is not intended to be a substitute for any language contained in the law.

	2006	2005	Percent Increase (Decrease)
Members Entering DROP	82*	980*	(92%)
Disbursements	$116,569,398	$131,405,021	(11%)
DROP Reserves at June 30	$769,738,837	$777,605,789	(1%)

INITIAL LUMP SUM BENEFIT (ILSB)

The ILSB program became effective on January 1, 1996. Retiring members who had not participated in the Deferred Retirement Option Plan (DROP) could choose the ILSB alternative, which provides both a one-time single sum payment of up to 36 months of a regular maximum monthly retirement benefit and a reduced monthly retirement benefit for life. The amount of the monthly benefit for life is based upon the amount of the single sum payment, the member's age at the time of retirement, and an actuarial reduction.

As with the DROP program, the member has several choices pertaining to the distribution of the single-sum payment.

- The member may receive the entire amount less twenty percent federal income tax withholding.
- The member may roll over the entire amount to an individual retirement account, an individual retirement annuity, or another qualified plan.
- The member may begin a period of monthly or annual withdrawals of the amount. However, all withdrawals are subject to the same tax laws that apply to the DROP.

	2006	2005	Percent Increase (Decrease)
Members choosing ILSB	31*	40*	(23%)
Disbursements	$3,691,939	$4,320,849	(15%)
ILSB Reserves at June 30	$5,932,773	$6,061,887	(2%)

DROP/ILSB ACCOUNT INTEREST RATES

FISCAL YEAR ENDING JUNE 30	2001	2002	2003	2004	2005	2006
INTEREST RATE	(.45%)**	(6.34%)**	(6.05%)**	9.35%	9.37%	15.15%

*Per Act 962 of 2003 members who become eligible for DROP or ILSB must now enter LaDROP or LaILSB.

**Attorney General Opinion ruled the DROP/ILSB Accounts could not be debited, therefore DROP/ILSB Account interest rates are set to 0%.

La DEFERRED RETIREMENT OPTION PLAN (LaDROP)
La INITIAL LUMP SUM BENEFIT (LaILSB)

In 2003, legislation was passed (Act 962 of 2003) that established a new method of calculating interest earnings on all affected Deferred Retirement Option Plan, (DROP)/Initial Lump Sum Benefit Plan (ILSB) accounts. The new law applies to all members who become eligible for DROP/ILSB on or after January 1, 2004. If you are a TRSL Regular Plan member, you become eligible for DROP/ILSB when you first reach one of the following eligibilities: 10 years of service at age 60, 25 years of service at age 55, or 30 years of service at any age.

The new interest bearing DROP/ILSB account is called LaDROP (Liquid Asset DROP) and LaILSB (Liquid Asset Initial Lump Sum Benefit). LaDROP and LaILSB accounts will earn interest at the liquid asset money market rate less a .25 percent administrative fee. Interest is posted monthly to the accounts and will be based on the balance in the account for that month.The liquid asset money market returns as of June 2006 averaged approximately 3.97 percent. This means LaDrop accounts earned approximately 3.72 percent.

LaDROP

	2006	2005	Percent Increase (Decrease)
Members Entering LaDROP	1920	1887	2%
Disbursements	$5,133,840	$ 406,579	1,163%
LaDROP Reserves at June 30	$139,023,472	$45,454,772	206%

LaILSB

	2006	2005	Percent Increase (Decrease)
Members Entering LaILSB	37	49	(24%)
Disbursements	$1,722,557	$1,960,012	(12%)
LaILSB Reserves at June 30	$ 497,419	$ 469,064	6%

EXCESS BENEFIT PLAN

The Excess Benefit Plan was created as a separate, unfunded, non-qualified plan, and is intended to be a qualified governmental excess benefit arrangement as defined in Section 415 (m)(3) of the Internal Revenue Code. This plan became effective January 1, 2000.

A member, whose TRSL benefit exceeds the maximum benefit allowed under Section 415 of the Code, is paid an excess monthly benefit from the Excess Benefit Plan in an amount equal to the lesser of the member's unrestricted benefit less the maximum 415 benefit, or the amount by which the member's monthly benefit from the pension plan has been reduced because of the limitations as provided for in Revised Statue 11:784.1 of the Louisiana Revised Statues.

The Excess Benefit Plan is administered by the Board of Trustees of Teachers' Retirement System of Louisiana. The board has the same rights, duties and responsibilities for this plan as for the pension plan.

Contributions may not be accumulated under the Excess Benefit Plan to pay future retirement benefits. Instead, monthly contributions made by the employer are reduced by the amount necessary to pay that month's excess retirement benefits. Employer contributions made to fund the Excess Benefit Plan are not commingled with the monies of the pension plan or any other qualified plan. Also, the excess benefit plan may never receive a transfer of assets from the pension plan.

	2006	2005	Percent Increase (Decrease)
Number of Excess Benefit Recipients	31	15	107%
Total Benefits Paid	$459,653	$378,168	22%

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

J. CHARLES PARKER, C.P.A.
LOUIS C. McKNIGHT, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD., SUITE 200
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

September 5, 2006

Report on Internal Control over Financial Reporting
and on Compliance and Other Mrs Based
on an Audit of Financial Statements Performed

Members of the Board of Trustees
Teachers' Retirement System of Louisiana
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of Teachers' Retirement System 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 Teachers' Retirement System of Louisiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting 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 Teachers' Retirement System of Louisiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

This report is intended solely for the information and use of the Board of Trustees, the State of Louisiana Division of Administration, the Office of the Legislative Auditor of the State of Louisiana, and management and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.