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

Financial Statement Audit
For the Years Ended June 30, 2016, and 2015
Issued October 14, 2016

LOUISIANA LEGISLATIVE AUDITOR
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DARYL G. PURPERA, CPA, CFE

October 13, 2016

Independent Auditor's Report

LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Louisiana School Employees' Retirement System (System), a component unit of the state of Louisiana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2016, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 4 to the financial statements, the total pension liability for the System was $2,522,157,498 as of June 30, 2016. The actuarial valuations were based on various assumptions made by the System's actuary. Because actual experience may differ from the assumptions used in the actuarial valuation, there is a risk that the total pension liability at June 30, 2016 could be understated or overstated. Our opinion is not modified with respect to this matter.

As disclosed in Note 5 to the financial statements, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include private equities and investments in real assets. Where a publicly-listed price is not available, the management of the System uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of investments. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the System as of June 30, 2015, were audited by other auditors whose report dated September 22, 2015, expressed an unmodified opinion on those statements and included an emphasis of matter paragraph on the actuarial assumptions used to determine the total pension liability.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 11 and the Schedule of Changes in Net Pension Liability, Schedule of Employers' Net Pension Liability, Schedule of Employer

Contributions, Schedule of Investment Returns, and Schedule of Funding Progress for the Other Postemployment Benefit Plan on pages 40 through 44, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. For the year ended June 30, 2016, we have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. For the years ended June 30, 2015, and 2014, the required supplementary information, as listed in the table of contents, was subjected to limited procedures applied in the June 30, 2015, audit of the basic financial statements by other auditors, who did not express an opinion or provide any assurance on the information because of the limited procedures.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The Statement of Changes in Reserve Balances, Schedule of Per Diem Paid to Trustees, Schedule of Administrative Expenses, and Schedule of Investments, included on pages 47 through 53, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Changes in Reserve Balances, Schedule of Per Diem Paid to Trustees, Schedule of Administrative Expenses, and Schedule of Investments are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. For the year ended June 30, 2016, such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the June 30, 2016, Statement of Changes in Reserve Balances, Schedule of Per Diem Paid to Trustees, Schedule of Administrative Expenses, and Schedule of Investments are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The June 30, 2015, Statement of Changes in Reserve Balances, Schedule of Per Diem Paid to Trustees, Schedule of Administrative Expenses, and Schedule of Investments were subjected to the auditing procedures applied in the June 30, 2015, audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the June 30, 2015, financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2016, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis of the financial performance of Louisiana School Employees' Retirement System (System). It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the current year.

FINANCIAL HIGHLIGHTS

- The System experienced net investment losses of $10,422,226 at June 30, 2016; this is a 119% decrease from net investment gains of $54,091,029 at June 30, 2015. This decrease in investment gains is attributed to a decrease in global equity market returns. In fiscal year 2016, the System achieved an annual return of -0.19%, as compared to 3.13% for fiscal year 2015. The largest and most notable portion of the loss came from international and emerging markets equities.

- Member contributions increased by $875,032, or 4.2%. The increase is attributable to an increase in the number of member contributing at the 8.0% tier.

- Employer contributions decreased by $8,572,964, or 8.9%, resulting from a decrease of the employer contribution rate by 2.9% and an increase in the aggregate number of retires. The retiree replacements are generally hired at a lower salary rate. The employer contribution rate established by the System's actuary and approved by the Public Employees' Retirement Systems Actuarial Committee is projected a year in advance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the System's basic financial statements, which are comprised of three components:

- Statement of Fiduciary Net Position

- Statement of Changes in Fiduciary Net Position

- Notes to the Financial Statements

The report also contains required supplemental information in addition to the basic financial statements.

The statements of fiduciary net position provide the pension fund's assets, liabilities, and results in the net position restricted for pension benefits. They disclose the financial position of the System as of June 30, 2016, and 2015.

The statements of changes in fiduciary net position report the results of the pension fund operations during the year, disclosing the additions to and deductions from the fiduciary net position. It supports the change that has occurred to the prior year's total net position on the statement of fiduciary net position.

FINANCIAL ANALYSIS

The System provides retirement benefits to all eligible school bus drivers, school janitors, school custodians, school maintenance employees, school bus aides, or other regular school employees who actually work on a school bus helping with the transportation of school children. Member contributions, employer contributions, and earnings on investments fund these benefits.

Comparative Statements of Fiduciary Net Position
For the Fiscal Years as of
June 30, 2016, and 2015

	2016	2015	2014
Assets:			
Cash	$48,358,258	$47,855,816	$46,565,272
Receivables	23,800,704	24,535,925	29,623,918
Investments	1,698,918,409	1,860,308,477	1,791,250,561
Collateral held under securities lending	94,214,928	179,300,866	177,754,861
Capital assets, net of depreciation	3,104,897	3,102,982	3,158,978
Other assets	429,220	459,878	507,730
Total assets	1,868,826,416	2,115,563,944	2,048,861,320
Liabilities:			
Total liabilities	101,016,169	264,107,763	191,494,264
Net Position Restricted for Pensions	$1,767,810,247	$1,851,456,181	$1,857,367,056

Comparative Statements of Changes in Fiduciary Net Position
For the Fiscal Years Ended
June 30, 2016, and 2015

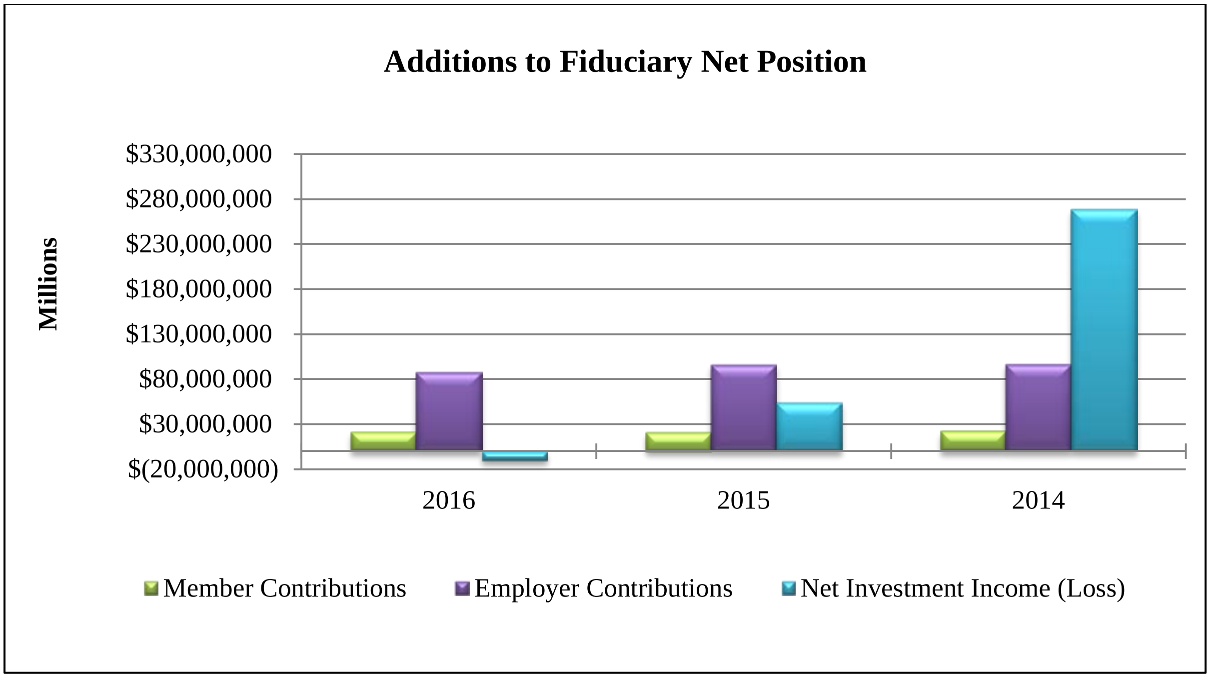
	2016	2015	2014
Additions:			
Contributions	$109,436,269	$117,134,201	$118,878,229
Investment Income	(10,422,226)	54,091,029	268,947,156
Total Additions	99,014,043	171,225,230	387,825,385
Deductions:			
Total Deductions	182,659,977	177,136,105	171,623,212
Change in Fiduciary Net Position	($83,645,934)	($5,910,875)	$216,202,173

Additions to Fiduciary Net Position

Additions to the System's fiduciary net position were derived from member and employer contributions and net investment income (loss). For the year ended June 30, 2016, employer contributions decreased $8,572,964, or 8.9%, while member contributions increased $875,032, or 4.2%. The System experienced net investment loss of $10,422,226 for the fiscal year ending June 30, 2016, as compared to net investment income of $54,091,029 for fiscal year ending June 30, 2015. This decrease in net investment income (loss) was attributed to fiscal year 2016 performance of -0.19% as compared to performance of 3.13% in fiscal year 2015. On June 30, 2016, and 2015, the market values of investments were $1.699 billion and $1.860 billion, respectively. The difference in market value reflects a decrease of $161 million.

For the year ended June 30, 2015, employer contributions decreased $459,438, or 1%, while member contributions decreased $1,284,590, or 6%. The System experienced net investment income of $54,091,029 for the fiscal year ending June 30, 2015, as compared to net investment income of $268,947,156 for fiscal year ending June 30, 2014. This decrease in net investment income was attributed to fiscal year 2015 performance of 3.13% as compared to performance of 17.16% in fiscal year 2014. On June 30, 2015, the market value of plan assets was $1.860 billion. On June 30, 2014, plan assets were $1.791 billion. The difference in market value reflects a price change of $69 million.

Additions to Fiduciary Net Position	2016	2015	2014
Member Contributions	$21,767,407	$20,892,375	$22,176,965
Employer Contributions	87,668,862	96,241,826	96,701,264
Net Investment Income (Loss)	(10,422,226)	54,091,029	268,947,156
Total	$99,014,043	$171,225,230	$387,825,385



Deductions from Fiduciary Net Position

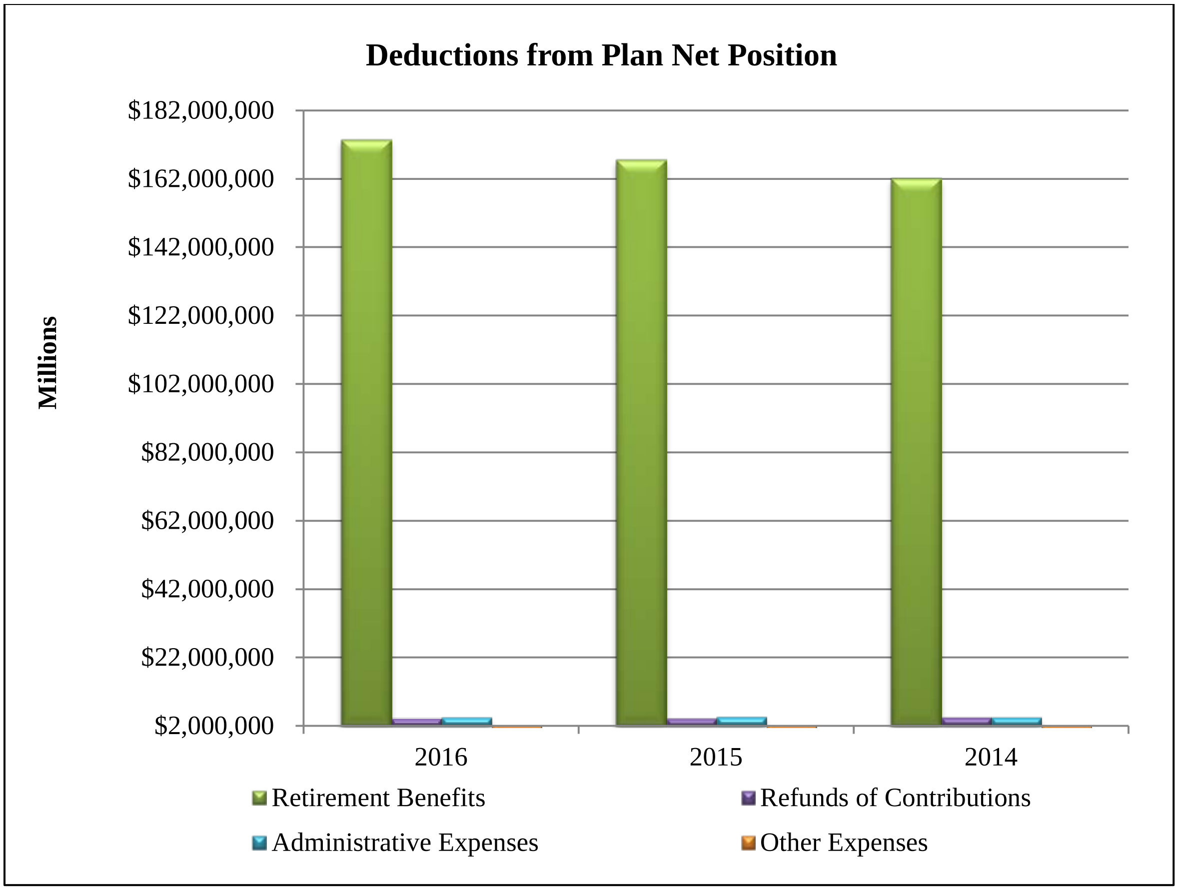
Deductions from fiduciary net position include mainly retirement, death, and survivor benefits, refunds of contributions, and administrative expenses. For the year ended June 30, 2016, deductions from fiduciary net position totaled $182,659,977. The deductions increased 3.1% due to an increase in the aggregate number of retirees and the corresponding increase in pension benefits payable.

For the year ended June 30, 2015, deductions from fiduciary net position totaled $177,136,105. The deductions increased 3% due to an increase in the aggregate number of retirees and the corresponding increase in pension benefits payable. A cost-of-living adjustment (COLA) of 1.5% to eligible retirees and beneficiaries was effective July 1, 2014, resulting from Act 103 of the 2014 Regular Legislative Session.

The cost of administering System benefits per member during 2016 and 2015 was $154 and $157, respectively.

Deductions from Fiduciary Net Position

	2016	2015	2014
Retirement Benefits	$173,565,398	$167,617,424	$162,219,637
Refunds of Contributions	4,139,711	4,213,790	4,389,704
Administrative Expenses	4,620,063	4,728,730	4,444,879
Other Expenses	334,805	576,161	568,992
Total	$182,659,977	$177,136,105	$171,623,212

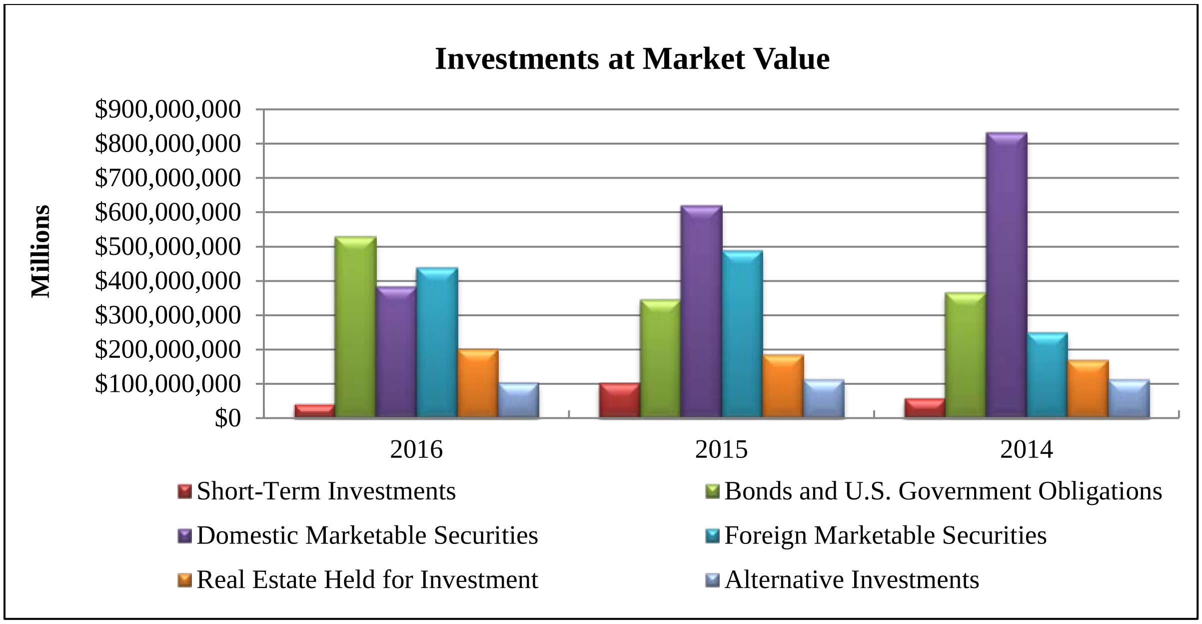


INVESTMENTS

The System is responsible for the prudent management of funds held in trust for the exclusive benefit of its members. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Total investments at June 30, 2016, were $1,698,918,409 as compared to $1,860,308,477 at June 30, 2015, or a decrease of $161,390,068.

The System's investments in various asset classes at the end of the 2016, 2015, and 2014 fiscal years are indicated in the following table:

Investments	2016	2015	2014
Short-Term Investments	$39,874,095	$104,171,600	$57,593,896
Bonds and U.S. Government and Agency Obligations	529,610,281	347,330,145	367,048,112
Domestic Marketable Securities	383,902,918	621,107,520	834,388,634
Foreign Marketable Securities	439,495,585	489,372,051	250,445,612
Real Estate	202,689,531	185,277,185	169,497,244
Alternative Investments	103,345,999	113,049,976	112,277,063
Total	$1,698,918,409	$1,860,308,477	$1,791,250,561



REQUESTS FOR INFORMATION

Questions concerning any of the information provided in this report or requests for any additional financial information can be addressed to Louisiana School Employees' Retirement System, Accounting Division, P.O. Box 44516, Baton Rouge, Louisiana 70804-4516.

Statement A

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Statements of Fiduciary Net Position
June 30, 2016, and 2015

	2016	2015
ASSETS:		
Cash	$48,358,258	$47,855,816
Receivables:		
Member contributions	2,833,475	2,855,160
Employer contributions	12,512,815	13,977,714
Privatization receivable	862,704	1,862,710
Accrued interest and dividends	2,525,415	3,273,326
Investment receivable	4,555,264	2,122,957
Other	511,031	444,058
Total receivables	23,800,704	24,535,925
Investments, at fair value:		
Short-term investments	39,874,095	104,171,600
U.S. Government and agency obligations	67,635,444	77,085,093
Bonds - domestic	402,892,948	186,648,399
Bonds - foreign	59,081,889	83,596,653
Marketable securities - domestic	383,902,918	621,107,520
Marketable securities - foreign	439,495,585	489,372,051
Alternative investments	103,345,999	113,049,976
Real estate	202,689,531	185,277,185
Total investments	1,698,918,409	1,860,308,477
Collateral held under securities lending program	94,214,928	179,300,866
Capital assets, net of depreciation	3,104,897	3,102,982
Other assets	429,220	459,878
Total assets	1,868,826,416	2,115,563,944
LIABILITIES:		
Accounts payable	156,278	1,480,507
Accrued expenses and benefits	1,877,377	102,594
Obligations under securities lending program	94,214,928	179,300,866
Investment payable	1,407,173	80,077,692
Other post employment benefits obligation	3,360,413	3,146,104
Total liabilities	101,016,169	264,107,763
NET POSITION RESTRICTED FOR PENSIONS	$1,767,810,247	$1,851,456,181

The accompanying notes are an integral part of these statements.

Statement B

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Statements of Changes in Fiduciary Net Position
For the Fiscal Years Ended June 30, 2016, and 2015

	2016	2015
ADDITIONS:		
Contributions:		
Member contributions	$21,590,258	$20,552,109
Irregular contributions - members	177,149	340,266
Employer contributions	86,414,623	92,365,229
Irregular contributions - employers	1,254,239	3,876,597
Total contributions	109,436,269	117,134,201
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	(28,886,321)	33,177,431
Interest	12,559,877	15,164,044
Securities lending income	431,568	456,435
Dividends	5,124,370	4,903,628
Alternative investment income	5,538,752	6,162,266
	(5,231,754)	59,863,804
Less investment expenses:		
Investment advisory fee	5,022,793	5,409,955
Custodian and bank fees	167,679	362,820
	5,190,472	5,772,775
Net investment income (loss)	(10,422,226)	54,091,029
Total additions	99,014,043	171,225,230
DEDUCTIONS:		
Retirement benefits paid	173,565,398	167,617,424
Refunds of contributions	4,139,711	4,213,790
Administrative expenses	4,620,063	4,728,730
Depreciation and amortization expense	229,090	193,224
Transfer to (from) other systems - employee	51,762	48,836
Transfer to (from) other systems - employer and interest	53,953	334,101
Total deductions	182,659,977	177,136,105
NET (DECREASE)	(83,645,934)	(5,910,875)
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	1,851,456,181	1,857,367,056
End of year	$1,767,810,247	$1,851,456,181

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

The State of Louisiana School Employees' Retirement System (System) was established and provided for by R.S. 11:1001 of the Louisiana Revised Statutes as a cost-sharing, multiple-employer defined benefit pension plan. The System is administered by a board of trustees made up of 12 members composed of the president of the Louisiana School Bus Operators' Association, the chairman of the House Retirement Committee, the Commissioner of the Division of Administration, the chairman of the Senate Retirement Committee, the Secretary of State, the State Treasurer, two service retirees elected by the retirees of the System, and a resident of each of the four districts of the System elected by the members of the System for a term of four years each.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements of the System are prepared in accordance with the standards established by the Governmental Accounting Standards Board (GASB).

In addition, these financial statements include the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and related standards. This standard provides for the inclusion of a management discussion and analysis for supplementary information and other changes.

B. REPORTING ENTITY

GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* which amends 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 there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens on, the System. The System also considered whether there are organizations that are fiscally dependent on it. There are no component units of the System.

The System is a component unit of the State of Louisiana, and its financial statements are included in the financial statements of the State of Louisiana.

C. BASIS OF ACCOUNTING

The financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period that the employee is compensated for services performed. Benefits and refunds paid are recognized when due and payable in accordance with the terms of the System. Interest income is recognized when earned and dividends are recognized at the declaration date. Expenditures are recognized in the period incurred.

D. INVESTMENTS

Investments are reported at fair value. Fair value of short-term investments approximates cost. Fair value of securities traded on a national or international exchange is calculated using the last reported sales price at current exchange rates. Fair value of mutual funds not traded on a national or international exchange is calculated using the net asset value reported by the mutual funds. Fair value of investments in partnerships is calculated as the Fund's percentage of ownership of the partner's capital reported by the partnership.

The System reports securities lent through the securities lending program as assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Liabilities resulting from securities lending transactions are reported as well.

The System invests in futures contracts and options in futures contracts. The changes in the market value of the contracts are reported as gains and losses in the period in which the change occurs.

The real estate held for investment consists of the leasing of office space and in real estate funds. The investments are valued at fair market value which is based upon appraised value.

The System invests in limited private equity partnerships. These investments are valued at market value, which is estimated by the General Partner of each partnership. Because of the inherent uncertainties in estimating fair values, it is at least reasonably possible that the estimates will change in the near term.

E. PROPERTY AND EQUIPMENT

Land, building, equipment, furniture, and computer software (reported as intangible assets), are carried at historical costs. Depreciation or amortization is computer by the straight-line method based upon useful lives of 40 years for the buildings and three to 10 years for software, equipment, and furniture.

F. COMPENSATED ABSENCES

The employees of the System accumulate annual and sick leave at varying rates based upon years of state service. 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 may be converted to service credit subject to restrictions of the retirement system to which the employee belongs.

G. USE OF 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 revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

H. TAX QUALIFICATION

The System is a Tax Qualified Plan under IRS Code Section 401(a).

I. PER DIEM PAID TO TRUSTEES

Per diem paid to trustees, as presented on Page 51, was established at $75 per day in accordance with R.S. 11:181.

J. ADOPTION OF NEW ACCOUNTING PRINCIPLES

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented by the System for fiscal year ended June 30, 2016. As required by GASB 72, investments are reported at fair value. Fair value is described as an exit price. This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable outputs. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value which includes three levels. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs – other than quoted prices – that are observable for an asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for an asset or liability, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures are organized by type of asset or liability. GASB 72 also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). These disclosures are located in Note 5.

GASB Statement No. 82, *Pension Issues,* was implemented by the System for the fiscal year ended June 30, 2016. The impact on the System includes a change to the presentation of payroll-related measures in the required supplementary information from *covered-employee payroll,* payroll of employees that are provided with pensions, to *covered payroll*, payroll on which contributions are based.

2. PLAN DESCRIPTION

The System is the administrator of a cost-sharing, multiple-employer defined benefit pension plan and is a component unit of the State of Louisiana included in the State's CAFR as a Pension Trust Fund. The System was established and provided for by R.S. 11:1001 of the Louisiana Revised Statutes. The accompanying statements present information only as to transactions of the program of the System as authorized by Louisiana Revised Statutes. The local government contributors consisted of 64 school boards and 32 other agencies for the year ended June 30, 2016, and 64 school boards and 46 other agencies at June 30, 2015, contributing to the System.

The System provides retirement benefits to non-teacher school employees excluding those classified as lunch workers within the public school system of Louisiana. At June 30, 2016, and 2015, plan membership consisted of:

	2016	2015
Retirees and beneficiaries currently receiving benefits	13,148	13,024
Terminated employees entitled to benefits but not yet receiving them	275	276
Terminated vested employees who have not withdrawn contributions (DROP)	676	660
Fully-vested, partially, and nonvested active employees	12,075	12,061
Terminated due a refund	3,898	3,940
Total Participants	30,072	29,961

Eligibility Requirements

Benefit provisions are authorized under R.S. 11:1141 – 11:1153.

Membership is mandatory for all persons employed by a Louisiana parish or city school board who work more than 20 hours per week as a school bus driver, school janitor, school custodian, school maintenance employee, school bus aide, a monitor or attendant, or any other regular school employee who actually works on a school bus helping with the transportation of schoolchildren. If a person is employed by and is eligible to be a member of more than one public agency within the state, he must be a member of each such retirement system. Members are vested after 10 years of service or five years if enrolled after June 30, 2010.

All temporary, seasonal, and part-time employees as defined in Federal Regulations 26 CFR 31:3121(b)(7)-2 are not eligible for membership in the System. Any part-time employees who work 20 hours or less per week and who are not vested will be refunded their contributions.

Benefits

Benefit provisions are authorized and amended under Louisiana Revised Statutes. Benefit provisions are dictated by R.S. 11: 1141 - 11:1153. A member who joined the System on or before June 30, 2010, is eligible for normal retirement if he has at least 30 years of creditable service regardless of age, 25 years of creditable service and is at least age 55, 20 years of creditable service regardless of age with an actuarially-reduced benefit, or 10 years of creditable service and is at least age 60. A member who joined the System on or after July 1, 2010, is eligible for normal retirement if he has at least five years of creditable service and is at least age 60, or 20 years of creditable service regardless of age with an actuarially-reduced benefit. A member who joined the System on or after July 1, 2015 is eligible for normal retirement if he has at least five years of creditable service and is at least age 62, or 20 years of creditable service regardless of age with an actuarially-reduced benefit.

For members who joined the System prior to July 1, 2006, the maximum retirement benefit is an amount equal to 3 1/3% of the average compensation for the three highest consecutive years of membership service, subject to the 10% salary limitation, multiplied by the number of years of service plus a supplementary allowance of $2.00 per month for each year of service, limited to 100% of final average compensation. For members who joined the System on or after July 1, 2006, through June 30, 2010, 3 1/3% of the average compensation is used to calculate benefits; however, the calculation consists of the five highest consecutive years of membership service, subject to the 10% salary limitation.

For members who join the System on or after July 1, 2010, 2 1/2% of the average compensation is used to calculate benefits and consists of the five highest consecutive years' average salary, subject to the 15% salary limitation. The supplemental allowance was eliminated for members entering the System on or after July 1, 1986. Effective January 1, 1992, the supplemental allowance was reinstated to all members whose service retirement became effective after July 1, 1971.

A member is eligible to retire and receive disability benefits if he has at least five years of creditable service, is not eligible for normal retirement and has become totally and permanently disabled, and is certified as disabled by the Medical Board. A member who joins the System on or after July 1, 2006, must have at least 10 years of service to qualify for disability benefits.

Upon the death of a member with five or more years of creditable service, the System provides benefits for surviving spouses and minor children. Under certain conditions outlined in the statutes, a spouse is entitled to 75% of the member's benefit.

Members of the System may elect to participate in the Deferred Retirement Option Plan (DROP) and defer the receipt of benefits. The election may be made only one time and the duration is limited to three years. Once an option has been selected, no change is permitted. Upon the effective date of the commencement of participation in DROP, active membership in the regular retirement plan of the System terminates. Average compensation and creditable service remain as they existed on the effective date of commencement of participation in DROP. The monthly retirement benefits, that would have been payable had the person elected to cease employment and receive a service retirement allowance, are paid into the Deferred Retirement Option Plan Fund Account.

The System maintains subaccounts within this account reflecting the credits attributed to each participant in the System. Interest credited and payments from the DROP account are made in accordance with R.S. 11:1152(F) (3). Upon termination of participation in both the System and employment, a participant may receive his DROP monies either in a lump sum payment from the account or systematic disbursements.

The System also provides for deferred benefits for vested members who terminate before being eligible for retirement. Once the member reaches the appropriate age for retirement, the benefits become payable.

Effective January 1, 1996, the state legislature authorized the System to establish an Initial Benefit Retirement Plan (IBRP) program. IBRP is available to members who have not participated in DROP and who select the maximum benefit, Option 2A benefit, Option 3A benefit, or Option 4A benefit. Thereafter, these members are ineligible to participate in the DROP. The IBRP program provides both a one-time single sum payment of up to 36 months of a regular monthly retirement benefit, plus a reduced monthly retirement benefit for life. Interest credited and payments from IBRP account are made in accordance with R.S. 11:1152(F)(3).

3. CONTRIBUTIONS AND RESERVES

Contributions:

Contributions for members are established by state statute at 7.5% of their annual covered salary for members employed prior to July 1, 2010, and 8.0% for members employed subsequent to July 1, 2010. Contributions for all participating school boards are actuarially determined as required by Act 81 of 1988 but cannot be less than the rate required by the Constitution. The actuarial required contribution rate for the years ended June 30, 2016, and June 30, 2015, was 28.7% and 32.0%, respectively. The actual employer rate for the years ended June 30, 2016, and June 30, 2015, was 30.2% and 33.0%, respectively. A difference may exist due to the State Statute that requires the rate to be calculated in advance.

Administrative costs are included in aggregate normal cost.

Reserves:

Use of the term "reserve" by the System indicates that a portion of the fund balances is legally restricted for specific future use. The nature and purpose of these reserves is explained below:

(A) Administrative: The Administrative Fund Reserve provides for general and administrative expenses of the System and those expenses not funded through other specific legislative appropriations. Funding consists of transfers from the investment earnings and is made as needed. The Administration Fund Reserve for each year ending June 30, 2016, and June 30, 2015, is $0. Any excess funds at year end are closed out to the Pension Accumulation Fund per Louisiana Statute.

(B) Experience Account Fund: The Experience Account was created by HB 658 of 2007, to be used to fund cost-of-living adjustments (COLA)/permanent benefit increases (PBI). It is credited with an amount not to exceed 50% of the prior year's actuarial calculated excess net investment experience gain in excess of $15 million (indexed) and debited any COLA/PBI granted. The balance in the experience account accrues interest at the average actuarial yield on the System's portfolio and is capped at the amount necessary to grant one PBI, until the System is 80% funded. The Experience Account Fund as of June 30, 2016, and June 30, 2015, is $633,076, and $23,058,055, respectively.

(C) Amortization Conversion Account: The Amortization Conversion Account was created to supplement employer contributions for the fiscal years ending June 30, 2015, through June 30, 2019. The initial funding of the account was the result of a transfer from the Experience Account Fund in the amount of $19,640,033. The shortfall in supplemental contributions, during the respective years, is to be funded from the Amortization Conversion Account. All funds remaining in the Amortization Conversion Account, as of June 30, 2019, shall be amortized as a gain. The Amortization Conversion Account balance as of June 30, 2016, and June 30, 2015, is $15,719,788 and $19,079,106, respectively.

(D) Annuity Savings: The Annuity Savings was created by state law and is credited with contributions made by members of the System. When a member terminates his service or upon his death before qualifying for a benefit, the refund of his contributions is made from this reserve. If a member dies and there is a survivor who is eligible for a benefit, the amount of the member's accumulated contributions is transferred from the Annuity Savings to the Survivor Benefit Reserve. When a member retires, the amount of his accumulated contributions is transferred to Pension Reserve to provide part of the benefits. The Annuity Savings as of June 30, 2016, and June 30, 2015, is $177,523,283 and $175,474,730, respectively.

(E) Pension Accumulation Fund: The Pension Accumulation Fund was created by state law and consists of contributions paid by employers, interest earned on investments, and any other income not covered by other accounts. This reserve account is charged annually with an amount, determined by the actuary, to be transferred to the Pension Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other reserves. The Pension Accumulation Fund as of June 30, 2016, and June 30, 2015, is $8,403,196 and $114,301,610, respectively.

(F) Annuity Reserve: The Annuity Reserve was created by state law and consists of the reserves for all pensions, excluding cost-of-living increases, granted to retired members and is the reserve account from which such pensions and annuities are paid. Survivors of deceased members also received benefits from this reserve account. The Annuity Reserve as of June 30, 2016, and June 30, 2015, is $1,496,979,891 and $1,449,818,792, respectively.

(G) Deferred Retirement Option Account: The Deferred Retirement Option account was created by state law and consists of the reserves for all members who upon retirement eligibility elect to deposit into this account an amount equal to the member's monthly benefit if he had retired. A member can only participate in the program for three years, and upon termination may receive his benefits in a lump sum payment or by a true annuity. The Deferred Retirement Option account as of June 30, 2016, and June 30, 2015, is $67,526,192 and $68,326,396, respectively.

(H) Initial Benefit Retirement Plan Reserve: The Initial Benefit Retirement Plan Reserve was created by state law and consists of the reserves for all participants who elect to take a lump-sum benefit payment up front and subsequently receive a reduced monthly benefit. The maximum amount a member may receive up front if 36 months times the maximum benefit. The Initial Benefit Retirement Plan Reserve as of June 30, 2016, and June 30, 2015, is $1,024,821 and $1,397,491, respectively.

4. NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability of the System's employers determined in accordance with GASB No. 67 as of June 30, 2016, and June 30, 2015, are as follows:

	2016	2015
Total pension liability	$2,522,157,498	$2,485,583,187
Plan fiduciary net position	1,767,810,247	1,851,456,181
Employers' net pension liability	$754,347,251	$634,127,006
Plan fiduciary net position as a percentage of the total pension liability	70.09%	74.49%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Actuarially-determined amounts regarding the net pension liability are subject to continual revision, as actual results are compared to past expectations, and new estimates are made about the future.

The actuarial assumptions used in the June 30, 2016, valuation were based on the assumptions used in the June 30, 2015, actuarial funding valuation. The actuarial assumptions used in the June 30, 2015, valuation were based on the assumptions used in the June 30, 2014, actuarial funding valuation, and were initially designed to match, to the extent possible, those used by the prior actuary for the fiscal year 2014 valuation. The actuarial assumptions used in the June 30, 2014, valuation were based on an experience study performed in 2013, for the period July 1, 2008, through June 30, 2012. Beginning with the fiscal 2015 actuarial valuation, the general economic and non-economic assumptions used by the prior actuary for the June 30, 2014, valuation were reviewed and a determination was made to retain them with the exception of the valuation interest rate and the statistics related to family composition and rates of remarriage. Adjustments to some non-mortality decrements were necessary due to differences in the software model used in the June 30, 2014, valuation. The required Schedules of Employers' Net Pension Liability located in required supplementary information following the Notes to the Financial Statements presents multi-year trend information regarding whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. The Total Pension Liability as of June 30, 2016, and 2015 is based on actuarial valuations for the same periods, updated using generally accepted actuarial procedures.

Information on the latest actuarial valuation is as follows:

Valuation Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Investment Rate of Return	7.125% per annum	7.00% per annum
Inflation Rate	2.625% per annum	2.75% per annum
Mortality	RP-2000 Sex Distinct Mortality Table	RP-2000 Sex Distinct Mortality Table
Salary Increases	2008-2012 experience study, ranging from 3.075% to 5.375%	Salary increases were projected based on a 2008-2012 experience study of the System's members, performed by the prior actuary. The annual salary growth rates are based upon the members' years of service.
Cost of Living Adjustments	The present value of future retirement benefits is based on benefits currently being paid by the system and includes previously granted cost of living increases. The present values do not include provisions for potential future increases not yet authorized by the Board of Trustees.	Cost-of-living raises may be granted from the Experience Account provided there are sufficient funds needed to offset the increase in the actuarial liability and the plan has met the criteria and eligibility requirements outlined by Act 399 of 2014.

The long-term expected rate of return on pension plan investments was determined using a triangulation method which integrated the CAPM pricing model (top-down), a treasury yield curve approach (bottom-up), and an equity building-block model (bottom-up). Risk return and correlations are projected on a forward looking basis in equilibrium, in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These rates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2016, is summarized in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	30.00%	1.82%
Equity	51.00%	3.10%
Alternatives	13.00%	0.79%
Real assets	6.00%	0.36%
Totals	100.00%	6.07%
Inflation		2.00%
Expected arithmetic nominal return		8.07%

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015, are summarized in the following table:

	Target Allocation	Long-term Expected Real Rate of Return
Fixed income	30.00%	1.06%
Equity	51.00%	3.61%
Alternatives	13.00%	0.89%
Real assets	6.00%	0.44%
Totals	100.00%	6.00%
Inflation		2.30%
Expected arithmetic nominal return		8.30%

For the June 30, 2015, valuation, although the assumed rate of return was maintained at 7.25%, the interest rate used to discount plan liabilities was reduced to 7.00%. This reduction was made to implicitly account for administrative expenses as an offset to investment gains or an increase to investment losses. Based on Act 94 of the 2016 Regular Session of the Legislature, beginning with the June 30, 2016, actuarial valuation, the explicit cost of projected noninvestment related administrative expenses will be included in the calculation of the actuarially required contribution for the System. With this change, the valuation of plan liabilities based on a valuation interest rate set for 0.25% below the assumed long-term rate of return is no longer necessary. Instead, for the June 30, 2016, actuarial valuation, the assumed long-term rate of return was reduced from 7.25% to 7.125%, and the valuation interest rate was set equal to the long-term rate of return.

The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from participating employers will be made at the actuarially-determined rates approved by the

Public Employees' Retirement Systems Actuarial Committee taking into consideration the recommendation of the System's actuary. Based on these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In accordance with GASB 67, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following presents the net pension liability of the participating employers calculated using the discount rate of 7.125% and 7.00% for June 30, 2016, and June 30, 2015, respectively, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	Changes in Discount Rate		
	1.0% Decrease	Current Discount Rate	1.0% Increase
2016 Net	6.125%	7.125%	8.125%
Pension Liability	$990,247,794	$754,347,251	$552,241,581

	Changes in Discount Rate		
	1.0% Decrease	Current Discount Rate	1.0% Increase
2015 Net	6.00%	7.00%	8.00%
Pension Liability	$871,136,523	$634,127,006	$431,464,224

5. DEPOSITS, CASH EQUIVALENTS AND INVESTMENTS

Following are the components of the System's deposits, cash equivalents and investments at June 30, 2016, and 2015:

	2016	2015
Deposits (bank balance)	$48,507,657	$47,802,440
Cash equivalents	39,874,095	104,171,600
Investments	1,659,044,314	1,756,136,877
Total	$1,747,426,066	$1,908,110,917

Deposits:

The System's bank deposits were entirely covered by federal depository insurance and by pledged securities. The pledged securities were held at the Federal Reserve in joint custody.

Cash Equivalents:

For the years ended June 30, 2016, and June 30, 2015, cash equivalents in the amount of $39,874,095 and $104,171,600, respectively, consisted of commercial paper, agency discount notes, repurchase agreements, time deposits, U.S. Treasury bills, certificates of deposit, bank notes, corporate obligations, and agency bonds. The funds are managed and held by a separate money manager and are in the name of the System. At June 30, 2016, and June 30, 2015, foreign currency included in cash equivalents of $586,595 and $744,959, respectively, is not covered by federal depository insurance or pledged collateral.

Investments:

In accordance with R.S. 11:263, the System is authorized to invest under the Prudent-Man Rule. The Prudent-Man Rule means that, in investing, the governing authorities of the System "shall exercise the judgment and care under the circumstances then prevailing that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds considering probable safety of capital as well as probable income." Notwithstanding the Prudent-Man Rule, the System shall not invest more than 65% of the total portfolio in equity investments.

The System's policy regarding the allocation of invested assets is established and amended by the System's Board. The System shall be managed at all times in accordance with Louisiana statues and any other applicable law. The policy states that the investment of the System's assets shall be for the exclusive purpose of providing benefits for the participants and their beneficiaries, and paying the System's administrative expenses. The System's investments shall be prudently selected and properly diversified so as to minimize the risk of large losses.

Investments Valuation and Fair Value Hierarchy:

Beginning with the fiscal year ended June 30, 2016, the System was required by GASB 72 to begin categorizing its fair value measurements within the fair value hierarchy established by generally-accepted accounting principles. The implementation of this new statement did not change the method of measuring the fair value of the System's assets. In addition, application of the new standard to the note disclosures for fiscal year 2015 was not practicable. Therefore, the System did not restate the 2015 note disclosures using the fair value hierarchy established in GASB 72, and a comparative note is not presented. The plan has the following recurring fair value measurements as of June 30, 2016:

Investments Reported at Fair Value at June 30, 2016:

		Fair Value Hierarchy		
	6/30/2016	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities				
U.S. Government and Agency Obligations	$22,009,734	$22,009,734		
Government Mortgage-Backed Securities	45,625,710		$45,625,710	
Corporate Bonds	264,687,203	97,571,179	120,099,127	$47,016,897
Collaterlized Mortgage Obligations	11,276,731		11,276,731	
Other Fixed Income	126,929,014	90,916,285	36,012,729	
Foreign Bonds	59,081,889		59,081,889	
Short-Term Investments	39,874,095	1,640,709	578,318	37,655,068
Total Debt Securities	569,484,376	212,137,907	272,674,504	84,671,965
Equity Securities				
Domestic Stock	98,487,099	98,312,599	174,500	
Domestic Equity	285,415,819	15,826,944		269,588,875
Foreign Stock	120,841,636	120,401,636	440,000	
Foreign Equity	318,653,949	134,129,659		184,524,290
Total Equity Securities	823,398,503	368,670,838	614,500	454,113,165
Financial Futures (Note 7)	(381,030)	(381,030)		
Total Investments at Fair Value Level	1,392,501,849	580,427,715	273,289,004	538,785,130
Investments measured at the Net Asset Value (NAV)				
Private Equity	103,727,029			
Real Estate	202,689,531			
Total Investments at NAV	306,416,560			
Total Investments at Fair Value	$1,698,918,409			
Securities Lending Cash Collateral	$94,214,928		$94,214,928	

Valuation Techniques:

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix and market-corroborate pricing and inputs such as yield curves and indices. Matrix pricing is used to value securities based on the securities' relationship to benchmark quote prices.

Derivative instruments classified in Level 1 are valued using prices quoted in active markets for those derivatives. Investments classified in Level 3 of the fair value hierarchy are valued using unobservable inputs and are not directly corroborated with market data.

The unfunded commitments and redemption terms for investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2016, is presented in the following table.

Investment Type	Fair Value 2016	Unfunded Commitments
Private Equity	$103,727,029	$33,167,544
Real Estate	202,689,531	2,514,246
Total Investments at NAV	$306,416,560	

Private Equity Funds – Industry Focused – This type includes private equity funds that invest diversely across private equity sub-strategies including buyouts, credit/distressed debt, venture capital/growth equity, and emerging markets via primary partnerships, co-investments, and secondary transactions. The fair values of the investments in this type have been determined using the NAV per share of the Plan's ownership interest in partners' capital. These are illiquid investments with a length of investment of 10-15 years.

Private equity funds – Buyouts – This type includes private equity funds that invest in buyouts, venture capital, special situation funds, and some secondary interests operating across the United States, Europe, and Asia. The fair values of the investments in this type have been determined using the NAV per share of the Plan's ownership interest in partners' capital. These are illiquid investments with a length of investment of 10-15 years.

Private equity funds – Mezzanine – This type includes a private equity partnership that invests in a mix of senior, second lien, and mezzanine debt to middle market companies with the aim of structuring investments with mezzanine pricing. The fair values of the investments in this type have been determined using the NAV per share of the Plan's ownership interest in partners' capital. This is an illiquid investment with a length of investment of 10-15 years.

Private equity funds – Energy and Natural Resources – This type includes a private equity partnership that invests in a diversified group of energy, infrastructure, natural resources, and hard assets funds in the United States. The fair values of the investments in this type have been determined using the NAV per share of the Plan's ownership interest in partners' capital. This is an illiquid investment with a length of investment of 10-15 years.

Real Estate Funds – This type includes real estate funds that invest diversely primarily in major property types including office, residential, retail, industrial, hotel, and self-storage properties. The fair values of the investments in this type have been determined using the NAV per share of the Plan's ownership interest in partners' capital. These are illiquid investments with a length of investment of 10-15 years. Returns are generated by capital appreciation and income from lease agreements.

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, 2016, and June 30, 2015, the System had the following investments in long-term debt securities and maturities:

June 30, 2016

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	10+ Years
U.S. Government and Government Agencies	$22,009,735	$310,022	$6,088,186	$6,995,727	$8,615,800
Government mortgage-backed securities	45,625,709	2,444	221,510	1,526,884	43,874,871
Total U.S. Government and Government Agency Obligations	$67,635,444	$312,466	$6,309,696	$8,522,611	$52,490,671
U.S. Corporate Bonds	$264,687,203	$6,637,826	$59,781,324	$188,901,313 [a]	$9,366,740
Collateralized Mortgage Obligations	11,276,731	15,279			11,261,452
Other Fixed Income	126,929,014		100,747,378 [b]	8,283,085	17,898,551
Domestic Bonds	$402,892,948	$6,653,105	$160,528,702	$197,184,398	$38,526,743
Foreign Bonds	$59,081,889	$206,000	$29,808,150	$16,264,094	$12,803,645
Collateral Held Under Securities Lending Program	$94,214,928	$94,214,928			

[a] Amount includes two collective investment trusts totaling $144,275,088 that have weighted average maturities of 6.75 and 7.75 years.
[b] Amount includes one collective investment trusts totaling $90,916,285 that has a weighted average maturity of 4.57 years.

June 30, 2015

Investment Type	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	10+ Years
U.S. Government and Government Agencies	$25,047,615	$542,111	$5,197,584	$11,816,380	$7,491,540
Government mortgage-backed securities	52,037,478		603,455	1,764,411	49,669,612
Total U.S. Government and Government Agency Obligations	$77,085,093	$542,111	$5,801,039	$13,580,791	$57,161,152
U.S. Corporate Bonds	$119,809,165	$2,824,503	$45,782,074	$37,112,650	$34,089,938
Collateralized Mortgage Obligations	13,506,183		31,361		13,474,822
Other Fixed Income	53,333,051		13,800,199	9,717,698	29,815,154
Domestic Bonds	$186,648,399	$2,824,503	$59,613,634	$46,830,348	$77,379,914
Foreign Bonds	$83,596,653	$2,699,220	$48,860,652	$20,960,858	$11,075,923
Collateral Held Under Securities Lending Program	$179,300,866	$161,630,444	$9,260,027	$6,461,782	$1,948,613

The System invests in collateralized mortgage obligations. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Custodial Credit Risk:

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investments held in a trust in the name of the System or in external investment pools are not exposed to foreign currency risk. External investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

At June 30, 2016, and 2015, for collateral held under securities lending in the amounts of $94,214,928 and $179,300,866, respectively, and noncash collateral in the amount of $5,460,818 and $18,801,905, respectively, the System is exposed to custodial credit risk since these investments are not in the name of the System. The System has no formal investment policy regarding custodial credit risk.

Concentration of Credit Risk:

The System's investment policy states that no more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one organization. There were no investments in any one organization which represented 5% of total investments at June 30, 2016, and June 30, 2015.

Credit Risk:

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Below is a schedule of bonds and bond funds with their applicable ratings:

2016	US Govt and Govt Agency Obligations	Government Mortgage Backed Securities	Corporate Bonds	Collateralized Mortgage Obligations	Other Fixed Income	Foreign Bonds
AAA			$1,953,468		$2,916,459	$3,553,037
AA+			6,514,528		1,287,336	1,157,105
AA			1,096,851		2,440,875	1,477,865
AA-			5,550,445			209,401
A+			341,000	$2,035,715	5,302,208	2,028,321
A			22,861,202		15,265,596	2,966,081
A-			15,788,803			1,876,287
BBB+			22,720,758	160,065		5,015,223
BBB			23,878,784	159,864	908,913	1,666,841
BBB-			9,516,236		977,280	3,321,326
BB+			1,126,296			779,326
BB			913,400		8,707	305,550
BB-			1,332,202			
B+			645,663	15,279	537,935	200,600
B			483,630			
B-			426,886			
CCC+			414,150			239,328
CCC			541,435	852,103	627,897	
CC						22,275
D			63,500	2,680,758	2,224,982	
Not Rated	$22,009,735	$45,625,709	148,517,866	5,372,947	94,430,826	34,263,323
	$22,009,735	$45,625,709	$264,687,103	$11,276,731	$126,929,014	$59,081,889

2015	US Govt and Govt Agency Obligations	Government Mortgage Backed Securities	Corporate Bonds	Collateralized Mortgage Obligations	Other Fixed Income	Foreign Bonds
AAA			$6,672,986		$2,034,594	$4,860,445
AA+			3,039,870		369,592	11,845,505
AA			541,626		1,678,189	982,324
AA-			2,663,654		1,455,226	1,654,662
A+			2,464,830	$2,599,803	6,700,458	2,307,875
A			28,486,944		19,010,021	16,292,366
A-			10,659,776			7,030,784
BBB+			26,840,072	196,923		3,867,464
BBB			12,485,061		3,289,974	3,090,496
BBB-			10,985,004		941,726	8,833,097
BB+			1,617,475			571,224
BB			742,075	198,903	9,903	318,938
BB-			1,648,147		601,186	329,475
B+			410,788	31,361		190,500
B			882,269			215,606
B-			445,450			
CCC+			436,905			300,093
CCC			643,090	1,719,454	2,597,195	
D				2,627,692	619,909	
Not Rated	$25,047,615	$52,037,478	8,143,143	6,132,047	14,025,078	20,905,799
	$25,047,615	$52,037,478	$119,809,165	$13,506,183	$53,333,051	$83,596,653

The System's investment policy limits its investments to no more than 10% of corporate debt issues rated below investment grade by Moody's Investor Services, Standard & Poor's, Fitch Investor Services, or Duff & Phelps. Securities that are downgraded below the policy standard must be sold within a reasonable amount of time. In addition, the System may invest in debt instruments of the U.S. Government or its agencies.

Cash collateral invested under the securities lending program may be invested in regulated investment companies; U.S. or Eurodollar deposits; commercial paper rated A2, P2, or higher at the time of investment; repurchase agreements; bankers' acceptances; or similar quality money market or cash equivalent investments. The System is in compliance with the investment policy regarding cash collateral invested under the securities lending program.

Foreign Currency Risk:

The System's investment policy has a target of 15% of total investments in foreign marketable securities and 10% of total investments in global fixed income. At June 30, 2016, the System's current position in foreign marketable securities and global fixed income is 4.5% and 2.9%, respectively. At June 30, 2015, the System's current position in foreign marketable securities and global fixed income is 4.0% and 2.0%, respectively.

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment. Foreign currency risk by currency for the years ended June 30, 2016, and June 30, 2015, are as follows:

Fair Value at June 30, 2016:

Currency	Marketable Securities	Bonds	Alternative Investments	Cash and Other	Total
Australian dollar	$3,149,266				$3,149,266
British pound sterling	11,309,499	$5,297,304		($4,939,630)	11,667,173
Canadian dollar	1,517,826	2,415,319		(2,346,244)	1,586,901
Danish krone	2,413,586			17,810	2,431,396
Euro	16,935,533	22,682,448	$8,372,128	(22,611,493)	25,378,616
Hong Kong dollar	9,245,650				9,245,650
Japanese yen	19,351,252	17,887,495		(17,756,724)	19,482,023
Malaysian Ringgit					
Mexican new peso		761,085		(726,465)	34,620
New Zealand dollar					
Polish zloty				7	7
South African comm rand					
Singapore dollar					
Swedish krona	1,140,463				1,140,463
Swiss franc	11,637,985			110,120	11,748,105
Total	$76,701,060	$49,043,651	$8,372,128	($48,252,619)	$85,864,220

Fair Value at June 30, 2015:

Currency	Marketable Securities	Bonds	Alternative Investments	Cash and Other	Total
Australian dollar	$3,582,796	$1,799,620			$5,382,416
British pound sterling	12,646,093	9,898,712		($1,405,370)	21,139,435
Canadian dollar	1,515,479				1,515,479
Danish krone	2,122,645			7,859	2,130,504
Euro	14,829,525	8,381,321	$8,810,347	6,977,946	38,999,139
Hong Kong dollar	9,814,554			21,467	9,836,021
Japanese yen	16,978,525	9,333,537		8,667,009	34,979,071
Malaysian Ringgit		1,796,087		17,703	1,813,790
Mexican new peso		6,980,725		98,826	7,079,551
New Zealand dollar		6,999,959		(6,893,451)	106,508
Polish zloty		3,581,948			3,581,948
South African comm rand				162	162
Singapore dollar	1,660,025				1,660,025
Swedish krona	1,508,001			5,546,212	7,054,213
Swiss franc	11,524,600			122,488	11,647,088
Total	$76,182,243	$48,771,909	$8,810,347	$13,160,851	$146,925,350

Money-Weighted Rate of Return:

For the years ended June 30, 2016, and June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.77% and 2.91%, respectively. The money-weighted return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

6. SECURITY LENDING TRANSACTIONS

State statutes and Board of Trustees' policies permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System entered into a contract with a company which acts as its third-party securities lending agent. The lending agent has access to the System's lendable portfolio or available assets. The agent lends available assets such as U.S. and non-U.S. equities, corporate bonds, and U.S. Government and Government Agency Securities. Securities are loaned versus collateral that may include cash, U.S. Government securities, and irrevocable letters of credit. U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 142% of the market value of the securities plus any accrued interest. 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. The contract with the System's agent requires it to provide borrower indemnification. The custodian's responsibility includes performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

All security loans can be terminated on demand by either the System or the borrower, although the average term of a loan is 130 days. Cash collateral is invested in a separately-managed account for the System, which at year-end has a weighted-average maturity of 17 days. The System cannot pledge or sell collateral securities received unless the borrower defaults. There were no significant violations of legal or contractual provisions, and no borrower or lending agent default losses are known to the securities lending agent.

The System has the following securities on loan:

	Fair Value June 30, 2016	Fair Value June 30, 2015
U.S. Government and Agency Securities	$4,186,952	$112,748
Corporate bonds - Domestic	20,067,145	15,323,646
Corporate bonds - Foreign		1,537,324
Government bonds - Foreign		790,277
Marketable Securities - Domestic	65,730,972	153,076,494
Marketable Securities - Foreign	1,397,098	4,177,613
Total	$91,382,167	$175,018,102

Securities on loan at June 30, 2016, and June 30, 2015, are collateralized by cash collateral in the amount of $94,214,928 and $179,300,866, respectively, and noncash collateral in the amount of $5,460,818 and $18,801,905, respectively.

The term to maturity of the securities loaned is matched with the term of maturity of the investment of the cash collateral at June 30, 2016, and June 30, 2015. Such matching did exist since loans may be terminated on demand.

7. DERIVATIVES

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires investment derivatives to be recorded at fair value and requires certain disclosures.

The System has entered into futures contracts for the purpose of maintaining market exposure for excess cash. The system has also entered into foreign currency forward contracts for the purpose of hedging cash flows due to changes in foreign currency rates associated with investments that are recorded at fair value. At June 30, 2016 and June 30, 2015, the System has the following derivative instruments categorized as investment derivative instruments:

Investment Derivatives at June 30, 2016:

	Fair Value			Changes in Fair Value	
	Notional Amount	Classification	Amount	Classification	Amount
Futures:					
Fixed Income Futures	($5,633,399)	Alternative	$121,516	Net App (Dep) in Fair Value	$121,516
Fixed Income Futures - EUR	(5,052,713)	Alternative	(124,816)	Net App (Dep) in Fair Value	(124,816)
Cash and Cash Equivalents	714,793	Alternative	(377,730)	Net App (Dep) in Fair Value	(377,730)
Futures Subtotal:	(9,971,319)		(381,030)		(381,030)
Forwards:					
Foreign Exchange Contracts	49,538,549	Short-term	413,434	Net App (Dep) in Fair Value	413,434
Forwards Subtotal:	49,538,549		413,434		413,434
Total Derivatives	$39,567,230		$32,404		$32,404

Investment Derivatives at June 30, 2015:

	Fair Value			Changes in Fair Value	
	Notional Amount	Classification	Amount	Classification	Amount
Fixed Income Futures	($16,018,515)	N/A		Net App (Dep) in Fair Value	($22,204)
Fixed Income Futures - EUR	2,574,703	N/A		Net App (Dep) in Fair Value	17,450
Cash and Cash Equivalents	445,705	N/A		Net App (Dep) in Fair Value	32,333
Total	($12,998,107)				$27,579

Credit Risk:

The System's future contracts are settled daily by the exchange via margin accounts; therefore, the exchange is the counterparty for all transactions. This ensures that no participant takes on excessive credit. The counterparties execute the trades on the System's behalf, which results in the System not being exposed directly to credit risk.

Foreign Currency Risk:

The System is exposed to foreign currency risk on its fixed income futures contracts, which are denominated in Euros. At June 30, 2016, and 2015, the fair value of the fixed income futures contracts is ($124,815) and $0, respectively.

The System's currency forwards are transacted in the over-the-counter market and 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.

Interest Rate Risk:

The System is exposed to interest rate risk on fixed income futures. The values of the futures are directly linked to interest rate indices, which increase and decrease as interest rates change.

8. ALTERNATIVE INVESTMENTS

The System invests in limited private equity partnerships. These investments are valued at market value, which is estimated by the General Partner of each partnership. The value assigned to these investments is based upon available information and does not necessarily represent the amounts that might ultimately be realized, since such investments depend on future circumstances and cannot be determined until the individual investments are actually liquidated. Because of the inherent uncertainty in valuing privately held securities, amounts realized on the sale of these investments will differ from the values reflected in these financial statements, and the difference may be material. Fair value of all partnerships was $103,345,999 and $113,049,976 as of June 30, 2016, and 2015, respectively.

The total initial active commitment for the partnerships as of June 30, 2016, was $180,000,000. The total amount called for funding as of June 30, 2016, was $152,698,755. The total amount of distributions recallable for funding as of June 30, 2016, was $5,866,299. The remaining commitment that could be called as of June 30, 2016, was $33,167,544.

The total initial active commitment for the partnerships as of June 30, 2015, was $182,690,500. The total amount called for funding as of June 30, 2015, was ($139,302,815). The total amount of distributions recallable for funding as of June 30, 2015, was $2,400,000. The remaining commitment that could be called as of June 30, 2015, was $45,787,685.

9. PROPERTY AND EQUIPMENT

Changes in property and equipment for the year ended June 30, 2016, are as follows:

	Beginning Balance June 30, 2015	Additions	Deletions	Ending Balance June 30, 2016
Building	$3,675,517	$79,512		$3,755,029
Land	1,010,225			1,010,225
Furniture and equipment	426,009	105,585		531,594
Construction in progress	16,086	5,328	($16,086)	5,328
Accumulated depreciation	(2,024,855)	(172,424)		(2,197,279)
	$3,102,982	$18,001	($16,086)	$3,104,897
Intangibles	$564,396			$564,396
Accumulated amortization	(113,332)	(56,666)		(169,998)
	$451,064	($56,666)		$394,398

Depreciation expense for the years ended June 30, 2016, and 2015 was $172,424 and $136,558, respectively. Amortization expense for each of the years ended June 30, 2016, and 2015 was $56,666.

10. OPERATING LEASES

The System leases office space recorded as real estate for investment under an operating lease expiring June 30, 2021. The cost and fair value of the real estate held for investments is $2,187,222 and $2,101,385, respectively, as of June 30, 2016, and $2,159,484 and $2,101,377, respectively as of June 30, 2015.

Minimum future rentals to be received on operating leases for the next five years and in the aggregate are:

Fiscal Year Ended June 30,	
2017	$347,399
2018	350,782
2019	350,782
2020	350,782
2021	350,782
Total mimimum payments	$1,750,527

The lease may be terminated under various circumstances by both parties.

11. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Plan employees are eligible for postemployment health care and life insurance benefits if their coverage was in effect immediately prior to their retirement and they elect to continue their coverage. These benefits for retired employees and similar benefits for active employees are provided through an insurance company whose premiums are paid jointly by the retiree and the employer. At June 30, 2016, 24 retired employees were receiving postemployment benefits.

Plan Description

The System's employees may participate in the State of Louisiana's Other Postemployment Benefit Plan (OPEB Plan), an agent multiple-employer defined benefit OPEB Plan that provides medical and life insurance to eligible active employees, retirees, and their beneficiaries. The state administers the plan through the Office of Group Benefits (OGB). R.S. 42:801-883 assigns the authority to establish and amend benefit provisions of the plan. OGB does not issue a publicly available financial report of the OPEB Plan; however, it is included in the State of Louisiana Comprehensive Annual Financial Report (CAFR). You may obtain a copy of the CAFR on the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov.

Funding Policy

The contribution requirements of plan members and the employer are established and may be amended by R.S. 42:801-883. Retirees do not contribute to their postemployment benefits cost until they retire and elect to continue coverage. Retirees contribute to the cost of their healthcare based on a participation schedule (i.e., years of participation in an OGB health plan to receive a specific premium subsidy from employer).

Premium amounts vary depending on what healthcare provider is selected from the plan and if the retired member has Medicare coverage. OGB offers six plans for active employees and five plans for retirees: Magnolia Open Access, Magnolia Local, Magnolia Local Plus, Pelican HSA 775 (not available to retirees), Pelican HRA 1000, and Vantage Medical Home HMO.

Retirees who have Medicare Part A and B coverage also have access to two OGB Medicare Advantage plans and one Medicare Exchange Plan which include two HMO-POS plans and one Towers Watson's OneExchange option for purchasing private health insurance on an exchange.

Depending on the plan selected during the year ended June 30, 2016, premium ranges per month for a retired employee receiving benefits are:

- Retiree without Medicare: $102.46 - $163.32 (enrollee only)
- Retiree with one Medicare: $62.00 - $98.82 (enrollee only)
- Retiree with two Medicare: $111.43 - $177.63 (enrollee + spouse)

Healthcare is financed on a pay-as-you go basis, with the former employer contributing at the following per month ranges:

- Retiree without Medicare: $660.12 - $1,052.34 (enrollee only)
- Retiree with one Medicare: $185.99 - $296.52 (enrollee only)
- Retiree with two Medicare: $334.33 - $532.97 (enrollee + spouse)

OGB also provides eligible retirees two fully-insured life insurance plans: Basic Term Life, Basic Plus Supplemental Term Life, Accidental Death and Dismemberment (AD&D), and Dependent Term Life, which are underwritten by The Prudential Insurance Company of America. The employer pays half of the life insurance premium for covered retirees. Retiree pays 100 percent of dependent life premiums.

- Basic Term Life: $0.54 per $1,000 (maximum of $5,000)
- Basic Plus Supplemental Term Life: $0.54 per $1,000 (1.5 times annual earnings to maximum of $50,000)
- Dependent Basic Term Life: $0.98 (spouse $1,000/Children $500); $1.96 (spouse $2,000/Children $1,000)
- Dependent Basic Plus Supplemental: $1.96 (spouse $2,000/Children $1,000); $3.92 (spouse $4,000/Children $2,000)

If retired, coverage for AD&D automatically terminates on January 1 following the covered person's 70th birthday. If the plan member is still actively employed at age 70, coverage terminates at midnight on the last day of the month in which retirement occurs.

Plan members enrolled in life insurance coverage will automatically have a 25% reduction in life coverage on January 1 following their 65th birthday. Another automatic 25% reduction in coverage will take effect on January 1 following their 70th birthday. Premium rates will be reduced accordingly.

Annual Other Postemployment Benefit Cost and Liability

The System's annual OPEB cost is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement 45, which was initially implemented for the year ended June 30, 2008. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities. The total ARC is $442,817 and $426,900 for the fiscal year beginning July 1, 2015, and 2014, respectively.

The following schedule presents the components of the System's annual OPEB cost for the years ended June 30, 2016, and June 30, 2015, the amount actually contributed to the plan, and changes in the System's net OPEB obligation:

	2016	2015
ARC	$442,817	$426,900
Interest on net OPEB obligation	125,844	118,085
ARC adjustment	(120,220)	(112,806)
Annual OPEB cost	448,441	432,179
Contributions made	(234,132)	(238,194)
Increase in net OPEB obligation	214,309	193,985
Beginning net OPEB obligation	3,146,104	2,952,119
Ending net OPEB obligation	$3,360,413	$3,146,104

The System's annual OPEB cost contributed to the plan using the pay-as-you-go method, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2016, and the two preceding fiscal years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$460,483	51.8%	$2,952,119
June 30, 2015	$432,179	55.1%	$3,146,104
June 30, 2016	$448,441	52.2%	$3,360,413

Funded Status and Funding Progress

Act 910 of the 2008 Regular Session established the Post-Employment Benefits Trust Fund effective July 1, 2008. However, neither the System nor the State of Louisiana contributed to it. Since the plan has not been funded, the entire actuarial accrued liability of $7,170,026 and $6,922,800 as of July 1, 2015, and July 1, 2014, respectively, was unfunded.

The funded status of the plan, as determined by an actuary as of July 1, 2015, and July 1, 2014, was as follows:

	July 1, 2015	July 1, 2014
Actuarial accrued liability (AAL)	$7,170,026	$6,922,800
Actuarial value of plan assets	NONE	NONE
Unfunded actuarial accrued liability (UAAL)	$7,170,026	$6,922,800
Funded ratio (actuarial value of plan assets/AAL)	0%	0%
Covered payroll	$1,511,286	$1,485,800
UAAL as percentage of covered payroll	474.4%	466%

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Furthermore, actuarially-determined amounts are subject to continual revision, as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

The July 1, 2015, determination of the accrued liability uses the valuation results and information as of July 1, 2014, from the GASB 45 Actuarial Valuation report dated July 22, 2015, projected to July 1, 2015. In the July 1, 2015, and July 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and initial annual healthcare cost trend rate of 7.5% and 6.5% for pre-Medicare and Medicare eligible, respectively, for the July 1, 2015, valuation and initial annual healthcare cost trend rate of 8.0% and 7.0% for pre-Medicare and Medicare eligible, respectively, for the July 1, 2014, valuation, grading down 0.5% each year until an ultimate rate of 4.5% is reached. The UAAL is amortized as a level percentage of payroll over an open amortization period of 30 years in developing the annual required contribution.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Schedule of Changes in Net Pension Liability
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

	2016	2015	2014
Total Pension Liability			
Service cost	$47,736,305	$48,439,299	$48,156,347
Interest	171,263,493	174,301,726	166,628,161
Changes of benefit terms	24,227,513		
Differences between expected and actual experience	(366,508)	(61,023,560)	(47,587,285)
Changes of assumptions	(29,907,056)	53,611,597	29,612,455
Benefit payments	(173,565,398)	(167,617,424)	(162,607,928)
Refunds of member contributions	(4,139,711)	(4,213,790)	(4,389,704)
Other	1,325,673	3,833,926	4,425,118
Net change in total pension liability	36,574,311	47,331,774	34,237,164
Total pension liability - beginning	2,485,583,187	2,438,251,413	2,404,014,249
Total pension liability - ending (a)	$2,522,157,498	$2,485,583,187	$2,438,251,413
Plan Fiduciary Net Position			
Contributions - employer	$86,414,623	$92,365,229	$96,701,264
Contributions - member	21,590,258	20,552,109	22,176,965
Net investment income (loss)	(10,422,226)	54,091,029	268,947,156
Benefit payments	(173,565,398)	(167,617,424)	(162,607,928)
Administrative expenses	(4,620,063)	(4,728,730)	(4,444,879)
Refunds of member contributions	(4,139,711)	(4,213,790)	(4,389,704)
Other	1,096,583	3,640,702	(180,701)
Net change in plan fiduciary net position	(83,645,934)	(5,910,875)	216,202,173
Plan fiduciary net position - beginning	1,851,456,181	1,857,367,056	1,641,164,883
Plan fiduciary net position - ending (b)	1,767,810,247	1,851,456,181	1,857,367,056
Net pension liability - ending (a) - (b)	$754,347,251	$634,127,006	$580,884,357
Plan fiduciary net position as a percentage of total pension liability	70.09%	74.49%	76.18%
Covered payroll	$286,141,136	$279,894,633	$277,481,437
Net pension liability as a percentage of covered payroll	263.63%	226.56%	209.34%

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Schedule of Employers' Net Pension Liability
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

Fiscal Year Ended	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability	Plan Fiduciary Net Position as a Percentage of Total Pension Liability	Covered Payroll	Employers' Net Pension Liability as a Percentage of Covered Payroll
June 30, 2014	$2,438,251,413	$1,857,367,056	$580,884,357	76.18%	$277,481,437	209.34%
June 30, 2015	$2,485,583,187	$1,851,456,181	$634,127,006	74.49%	$279,894,633	226.56%
June 30, 2016	$2,522,157,498	$1,767,810,247	$754,347,251	70.09%	$286,141,136	263.63%

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM STATE OF LOUISIANA

Schedule of Employer Contributions
For the 10 Fiscal Years Ended June 30, 2016

Fiscal Year	(a) Actuarially Determined Contribution	(b) Contributions in Relation to the Actuarially Determined Liability	(b-a) Contribution Excess (Deficiency)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2007	$46,220,683	$50,489,918	$4,269,235	$256,781,573	19.7%
2008	$49,930,365	$51,765,697	$1,835,332	$285,316,373	18.1%
2009	$57,084,533	$55,340,199	($1,744,334)	$306,906,093	18.0%
2010	$69,430,399	$53,004,055	($16,426,344)	$297,984,547	17.8%
2011	$82,506,147	$72,151,524	($10,354,623)	$294,644,809	24.5%
2012	$85,437,337	$82,551,706	($2,885,631)	$283,844,974	29.1%
2013	$86,557,611	$85,873,201	($684,410)	$273,916,492	31.4%
2014	$90,701,264	$92,515,106	$1,813,842	$277,481,437	33.3%
2015	$92,365,229	$92,365,229		$279,894,633	33.0%
2016	$82,170,815	$86,414,623	$4,243,808	$286,141,136	30.2%

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Schedule of Investment Returns
For the Fiscal Years Ended June 30, 2016, 2015, and 2014

Fiscal Year-End	Annual Money-Weighted Rate of Return *
June 30, 2014	16.66%
June 30, 2015	2.91%
June 30, 2016	0.77%

* Annual money-weighted rates of return are presented net of investment expense.

Schedule is intended to show information for 10 years. Additional years will be presented as they become available.

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM STATE OF LOUISIANA

Schedule of Funding Progress for the Other Postemployment Benefits Plan For the Fiscal Years Ended June 30, 2016, 2015, and 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2013	$0	$6,894,800	$6,894,800	0%	$1,206,609	571.4%
July 1, 2014	$0	$6,922,800	$6,922,800	0%	$1,485,800	465.9%
July 1, 2015	$0	$7,170,026	$7,170,026	0%	$1,511,286	474.4%

The actuarial valuation date differs from the financial reporting date. The actuarial valuations are as of the beginning of the fiscal year.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF CHANGES IN NET PENSION LIABILITY

The total pension liability contained in this schedule was provided by the System's actuary, G.S. Curran and Company. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the System.

2. SCHEDULE OF EMPLOYERS' NET PENSION LIABILITY

The employers' net pension liability is the liability of the contributing employers to members for benefits provided through the System. Covered payroll is the payroll of all employees that are contributing to the plan.

3. SCHEDULE OF CONTRIBUTIONS

The difference between the actuarially-determined employer contributions and employer contributions received, and the percentage of employer contributions received to cover employee payroll, is presented in this schedule.

4. SCHEDULE OF INVESTMENT RETURNS

The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. This expresses the investment performance adjusted for changing amounts actually invested throughout the year, measured using monthly inputs with expenses measured on an accrual basis.

5. SCHEDULE OF FUNDING PROGRESS FOR OPEB BENEFITS PLAN

The OPEB liability is funded on a "pay-as-you-go" basis. Therefore, the ratio of AAL to unfunded AAL (UAAL) is 0.0%. The schedule also represents the percentage of UAAL to covered payroll.

6. ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was used in the actuarial valuation for purposes of determining the actuarially determined contribution rate. The assumptions and methods used for the actuarial valuation were recommended by the actuary and adopted by the Board.

Valuation Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost	Entry Age Normal Cost
Investment Rate of Return	7.125% per annum	7.00% per annum
Inflation Rate	2.625% per annum	2.75% per annum
Mortality	RP-2000 Sex Distinct Mortality Table	RP-2000 Sex Distinct Mortality Table
Salary Increases	2008-2012 experience study, ranging from 3.075% to 5.375%	Salary increases were projected based on a 2008-2012 experience study of the System's members, performed by the prior actuary. The annual salary growth rates are based upon the members' years of service.
Cost of Living Adjustments	The present value of future retirement benefits is based on benefits currently being paid by the system and includes previously granted cost of living increases. The present values do not include provisions for potential future increases not yet authorized by the Board of Trustees.	Cost-of-living raises may be granted from the Experience Account provided there are sufficient funds needed to offset the increase in the actuarial liability and the plan has met the criteria and eligibility requirements outlined by Act 399 of 2014.

SUPPLEMENTARY INFORMATION

LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA

Statement of Changes in
Reserve Balances
For the Fiscal Years Ended June 30, 2016, and 2015

	Annuity Reserve	Annuity Savings	DROP	IBRP
Balances, July 1, 2015	$1,449,818,792	$175,474,731	$68,326,396	$1,397,491
ADDITIONS:				
Contributions:				
Members		21,767,408		
Employers				
Investment income and other sources				
Transfers from Annuity Savings	15,528,498			
Transfers from Survivor Benefit	(320,872)			
Transfers from Experience Account	24,015,985			
Pensions transferred from Pension Reserve			12,843,070	1,648,682
Operating transfers				
Actuarial transfers	180,009,141			
Total additions	219,232,752	21,767,408	12,843,070	1,648,682
DEDUCTIONS:				
Retirement allowances paid	157,900,773		13,643,274	2,021,352
Refunds to members		4,139,711		
Transfers to Pension Reserve	(320,872)	15,528,498		
Transfers to Experience Account				
Transfers to Amortization Conversion				
Pensions transferred to DROP	12,843,070			
Pensions transferred to IBRP	1,648,682			
Transfers to (from) other systems		50,647		
Depreciation and amortization				
Administrative expenses				
Operating transfers				
Actuarial transfer				
Total deductions	172,071,653	19,718,856	13,643,274	2,021,352
Net Increase (Decrease)	47,161,099	2,048,552	(800,204)	(372,670)
Balances, June 30, 2016	$1,496,979,891	$177,523,283	$67,526,192	$1,024,821

(Continued)

Schedule 6

Pension Accumulation	Experience Account Fund	Amortization Conversion Account	Administrative Fund	Total
$114,301,610	$23,058,055	$19,079,106		$1,851,456,181
				21,767,408
87,668,862				87,668,862
(12,013,232)	1,591,006			(10,422,226)
				15,528,498
				(320,872)
				24,015,985
				14,491,752
			$4,620,063	4,620,063
3,359,318				183,368,459
79,014,948	1,591,006		4,620,063	340,717,929
				173,565,399
				4,139,711
	24,015,985			39,223,611
				12,843,070
				1,648,682
55,068				105,715
229,090				229,090
4,620,063				4,620,063
			4,620,063	4,620,063
180,009,141		3,359,318		183,368,459
184,913,362	24,015,985	3,359,318	4,620,063	424,363,863
(105,898,414)	(22,424,979)	(3,359,318)		(83,645,934)
$8,403,196	$633,076	$15,719,788		$1,767,810,247

LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA
Statement of Changes in
Reserve Balances
For the Fiscal Years Ended June 30, 2016, and 2015

	Annuity Reserve	Annuity Savings	DROP	IBRP
Balances, July 1, 2014	$1,588,138,148	$170,558,261	$68,155,611	$1,329,264
ADDITIONS:				
Contributions:				
Members		20,892,375		
Employers				
Investment income and other sources				
Transfers from Annuity Savings	11,713,669			
Transfers from Survivor Benefit	183,958			
Transfers from Experience Account	20,787,326			
Pensions transferred from Pension Reserve			13,007,321	1,583,294
Operating transfers				
Actuarial transfers				
Total additions	32,684,953	20,892,375	13,007,321	1,583,294
DEDUCTIONS:				
Retirement allowances paid	153,265,820		12,836,536	1,515,067
Refunds to members		4,213,790		
Transfers to Pension Reserve	183,958	11,713,669		
Transfers to Experience Account				
Transfers to Amortization Conversion				
Pensions transferred to DROP	13,007,321			
Pensions transferred to IBRP	1,583,294			
Transfers to (from) other systems		48,446		
Depreciation and amortization				
Administrative expenses				
Operating transfers				
Actuarial transfer	2,963,916			
Total deductions	171,004,309	15,975,905	12,836,536	1,515,067
Net Increase (Decrease)	(138,319,356)	4,916,470	170,785	68,227
Balances, June 30, 2015	$1,449,818,792	$175,474,731	$68,326,396	$1,397,491

(Concluded)

Schedule 6

Pension Accumulation	Experience Account Fund	Amortization Conversion Account	Administrative Fund	Total
($11,241,587)	$20,787,326	$19,640,033		$1,857,367,056
				20,892,375
96,241,826				96,241,826
31,032,974	23,058,055			54,091,029
				11,713,669
				183,958
				20,787,326
				14,590,615
			$4,728,730	4,728,730
3,524,843				3,524,843
130,799,643	23,058,055		4,728,730	226,754,371
				167,617,423
				4,213,790
	20,787,326			32,684,953
				13,007,321
				1,583,294
334,492				382,938
193,224				193,224
			4,728,730	4,728,730
4,728,730				4,728,730
		$560,927		3,524,843
5,256,446	20,787,326	560,927	4,728,730	232,665,246
125,543,197	2,270,729	(560,927)		(5,910,875)
$114,301,610	$23,058,055	$19,079,106		$1,851,456,181

LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA

Schedule of Per Diem Paid to Trustees
For the Fiscal Years Ended June 30, 2016, and 2015

June 30, 2016

Trustee	Number of Meetings	Amount
Colleen Barber	13	$975
Eugene Rester	12	900
Jeffrey Faulk	13	975
Judith McKee	9	675
Kathy Landry	13	975
Phillip Walther	13	975
Henry Yearby	12	900
Totals		$6,375

June 30, 2015

Trustee	Number of Meetings	Amount
Betty Crain	7	$525
Colleen Barber	7	525
Eugene Rester	14	1,050
Jeffrey Faulk	14	1,050
Judith McKee	13	975
Kathy Landry	14	1,050
Phillip Walther	13	975
Henry Yearby	14	1,050
Totals		$7,200

The Board holds regular two-day meetings each quarter and one-day Investment Committee meetings during the months those regular meetings are not held.

**LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA**

**Schedule of Administrative Expenses
For the Fiscal Years Ending June 30, 2016, and 2015**

	2016	2015
Expenses:		
Salaries	$2,011,495	$2,084,785
Related benefits	1,491,955	1,297,074
Temporary labor	8,007	
Compensation - board	6,375	7,200
Total expenses	3,517,832	3,389,059
Operating Expenses:		
Travel - board	20,313	37,792
Travel - staff	30,805	29,172
Total operating expenses	51,118	66,964
Operating Services:		
Equipment maintenance	87,428	100,720
Equipment rent	24,253	39,169
Building	255,090	214,280
Dues and subscriptions	35,735	22,194
Postage and printing	145,198	157,494
Telephone	34,347	37,796
Insurance	33,740	40,542
Legal	19,600	5,740
Advertising	325	178
Records imaging	1,118	792
Total operating services	636,834	618,905
Supplies:		
Office	12,197	10,662
Computer	254	10,776
Total supplies	12,451	21,438
Professional Services:		
Medical	10,275	13,075
Actuary	78,960	83,500
Audit	70,690	57,825
Total professional services	159,925	154,400
Interagency transfers:		
Civil service	11,566	9,687
Total interagency transfers	11,566	9,687
Other Charges:		
Miscellaneous	72,747	256,609
Computer software	157,590	211,668
Total other charges	230,337	468,277
Total Expenses	$4,620,063	$4,728,730

LOUISIANA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATE OF LOUISIANA

Schedule of Investments
For the Fiscal Year Ended June 30, 2016

	Par Value	Original Cost	Market Value
Short-Term Investments		$39,898,444	$39,874,095
U.S. Government and U.S. Government Agency Obligation:			
U.S. government and government agency obligations	$20,836,823	$20,700,022	$22,009,734
Government mortgage-backed securities	127,202,320	45,762,816	45,625,710
	$148,039,143	$66,462,838	$67,635,444
Bonds - Domestic:			
Corporate bonds - domestic	$125,766,904	$251,818,037	$264,687,203
Collateralized mortgage obligations	14,737,204	11,484,268	11,276,731
Other fixed income investments	10,896,356	92,885,046	93,908,581
Asset backed securities	35,576,265	33,414,735	33,020,433
	$186,976,729	$389,602,086	$402,892,948
Bonds - Foreign:			
Corporate bonds - foreign	$12,942,018	$13,727,622	$13,358,015
Government bonds - foreign	1,650,625,000	41,608,554	45,723,874
	$1,663,567,018	$55,336,176	$59,081,889
Marketable Securities - Domestic:			
Common stocks		$74,534,752	$98,487,100
Equity funds		258,893,966	285,415,818
		$333,428,718	$383,902,918
Marketable Securities - Foreign:			
Common stocks		$104,450,011	$120,401,636
Equity funds		354,152,734	318,653,949
Preferred stock		428,750	440,000
		$459,031,495	$439,495,585
Alternative Investments:			
Private Equity Funds		$96,913,183	$103,345,999
		$96,913,183	$103,345,999
Real Estate:			
Real estate funds		$129,978,628	$200,588,145
Real estate held for investment		2,187,222	2,101,386
		$132,165,850	$202,689,531
Total Investments		$1,572,838,790	$1,698,918,409

OTHER REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Exhibit A

The following pages contain a report on internal control over financial reporting and on compliance with laws, regulations, and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

October 13, 2016

Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

**LOUISIANA SCHOOL EMPLOYEES'
RETIREMENT SYSTEM
STATE OF LOUISIANA**
Baton Rouge, Louisiana

We have audited, in accordance with the 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, the financial statement of the fiduciary net position and the related statement of changes in fiduciary net position of the Louisiana School Employees' Retirement System (System), a component unit of the State of Louisiana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated October 13, 2016. Our report was modified to include emphasis of matter paragraphs regarding actuarial assumptions and investment valuations. Our report was also modified to include an other matters paragraph explaining that the financial statements of the System as of June 30, 2015, were audited by other auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DM:BDC:EFS:ch

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