

**Municipal Employees' Retirement System of Louisiana
Baton Rouge, Louisiana
June 30, 2017**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of Municipal Employees' Retirement System of Louisiana ("the System"), which comprise the statements of fiduciary net position as of June 30, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of Municipal Employees' Retirement System of Louisiana as of June 30, 2017 and 2016, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 3 to the financial statements, the total pension liability for the Municipal Employees' Retirement System was \$1,115,400,101 and \$1,081,747,268 for Plan A and \$236,991,237 and \$266,092,430 for Plan B, respectively, as of June 30, 2017 and 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, 2017 and 2016, could be understated or overstated.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in net pension liability, schedules of employers' net pension liability, schedules of employer contributions, and schedules of investment returns 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. 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 audits 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The individual funds' statements of fiduciary net position, individual funds' statements of changes in fiduciary net position, schedule of per diem to board members, schedules of administrative expenses, and schedule of compensation benefits and other payments to agency head or chief executive officer are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules 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. Such information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated, in all material respects, in relation to the basic 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 December 11, 2017 on our consideration of Municipal Employees' Retirement System of Louisiana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 Municipal Employees' Retirement System of Louisiana's internal control over financial reporting and compliance.



December 11, 2017

**Municipal Employees' Retirement System of Louisiana
Management's Discussion and Analysis
June 30, 2017**

The following discussion and analysis of Municipal Employees' Retirement System of Louisiana (the System) for the year ended June 30, 2017, highlights relevant aspects of the basic financial statements and provides an analytical overview of the System's financial activities.

Financial Highlights

The Municipal Employees' Retirement System's fiduciary net position restricted for pension benefits exceeded its liabilities at the close of fiscal year 2017 by \$847,525,897 which represents an increase from last year. The net position restricted for pension benefits increased by \$32,448,101 or 3.98%. The increase was primarily due to stronger financial markets.

Contributions to the System by members and employers totaled \$69,999,912, an increase of \$7,634,325 or 12.24% from the prior year. Contributions from ad valorem taxes and revenue sharing totaled \$8,644,773, an increase of \$123,259 or 1.45% from the prior year.

Pension benefits paid to retirees and beneficiaries increased by \$3,468,657 or 5.23% from the prior year. This increase is due to an increase in the number of retirees and their benefit amounts.

Administrative expenses of the System totaled \$1,977,172, an increase of \$363,815 or 22.55% from the prior year.

Net investment income of the System totaled \$37,913,313 for fiscal year 2017, compared to losses of \$24,756,843 for fiscal year 2016, an improvement of \$62,670,156.

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:

1. Statements of fiduciary net position
2. Statements of changes in fiduciary net position, and
3. Notes to the financial statements.

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

The statements of fiduciary net position report the System's assets, liabilities, and resultant net position restricted for pension benefits. It discloses the financial position of the System as of June 30, 2017 and 2016.

The statements of changes in fiduciary net position report the results of the System's 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 net position value on the statement of fiduciary net position.

Financial Analysis of the System

Municipal Employees' Retirement System provides benefits to employees of all incorporated villages, towns, and cities within the State of Louisiana which do not have their own retirement system and which elect to become members of the System. Member contributions, employer contributions, and earnings on investments fund these benefits.

**Municipal Employees' Retirement System of Louisiana
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the System (Continued)

Condensed Statements of Fiduciary Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash	\$ 37,393,904	\$ 35,475,599	\$ 9,386,693
Receivables	16,542,038	63,687,377	7,071,043
Investments	792,166,776	714,331,938	831,629,147
Property and equipment	<u>2,079,324</u>	<u>2,084,924</u>	<u>1,180,458</u>
Total assets	848,182,042	815,579,838	849,267,341
Total liabilities	<u>656,145</u>	<u>502,042</u>	<u>1,013,980</u>
Net position restricted for pension benefits	<u>\$ 847,525,897</u>	<u>\$ 815,077,796</u>	<u>\$ 848,253,361</u>

The net position restricted for pension benefits increased by \$32,448,101 or 3.98%. The increase was primarily due to stronger financial markets.

Statements of Changes in Fiduciary Net Position

For the Years Ended June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Additions:			
Contributions			
and ad valorem taxes	\$ 78,644,685	\$ 70,887,101	\$ 67,920,775
Investment income (loss)	37,913,313	(24,756,843)	(27,713,499)
Other	<u>1,195,787</u>	<u>1,286,454</u>	<u>1,036,763</u>
Total additions	117,753,785	47,416,712	41,244,039
Total deductions	<u>85,305,684</u>	<u>80,592,277</u>	<u>79,722,617</u>
Net increase (decrease)	<u>\$ 32,448,101</u>	<u>\$ (33,175,565)</u>	<u>\$ (38,478,578)</u>

Additions to Fiduciary Net Position

Additions to the System's fiduciary net position were derived from member and employer contributions, ad valorem taxes, state revenue sharing funds and investment income (loss.) Employer contributions increased \$7,421,776 or 17.37% primarily due to an increase in salaries and contribution rate. The System experienced net investment gain of \$37,913,313 as compared to a net investment loss of \$24,756,843 in 2016.

**Municipal Employees' Retirement System of Louisiana
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the System (Continued)

Additions to Fiduciary Net Position (Continued)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	2016 to 2017 Percentage Change
Member contributions	\$ 19,861,174	\$ 19,648,625	\$ 18,618,466	1.08%
Employer contributions	50,138,738	42,716,962	40,961,448	17.37%
Ad valorem and state revenue sharing	8,644,773	8,521,514	8,340,861	1.45%
Transfer from operating fund	-	-	498,196	0.00%
Net investment income (loss)	37,913,313	(24,756,843)	(27,713,499)	253.14%
Other	<u>1,195,787</u>	<u>1,286,454</u>	<u>538,567</u>	(7.05%)
 Total additions	 <u>\$ 117,753,785</u>	 <u>\$ 47,416,712</u>	 <u>\$ 41,244,039</u>	

Deductions from Fiduciary Net Position

Deductions from fiduciary net position include mainly retirement, death, and survivor benefits, DROP withdrawals, administrative expenses and transfers to other systems. Deductions from fiduciary net position totaled \$85,305,684 in fiscal year 2017. The increase of \$4,713,407 from 2016 is primarily due to an increase in retirement benefits, DROP withdrawals and transfers to other systems but was offset by a slight decrease in refunds of contributions.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	2016 to 2017 Percentage Change
Retirement benefits	\$ 77,264,693	\$ 73,156,872	\$ 71,535,972	5.62%
Refunds of contributions	4,464,060	4,715,641	4,721,783	(5.34%)
Administrative expenses	1,977,172	1,613,357	1,919,657	22.55%
Transfer to other systems	<u>1,599,759</u>	<u>1,106,407</u>	<u>1,545,205</u>	44.59%
 Total deductions	 <u>\$ 85,305,684</u>	 <u>\$ 80,592,277</u>	 <u>\$ 79,722,617</u>	

**Municipal Employees' Retirement System of Louisiana
Management's Discussion and Analysis
June 30, 2017**

Financial Analysis of the System (Continued)

Investments

Municipal Employees' Retirement System of Louisiana is responsible for the prudent management of funds held in trust for the exclusive benefits of their members' pension benefits. Funds are invested to achieve maximum returns without exposing retirement assets to unacceptable risks. Total market value of investments at June 30, 2017 was \$792,166,776 as compared to \$714,331,938 at June 30, 2016, which is an increase of \$77,834,838. The major contributing factor to this increase was due to stronger financial markets. The System's investments in various asset classes at the end of the 2017 and 2016 fiscal years are indicated in the following table:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2016 to 2017 Percentage Change</u>
Cash equivalents	\$ 10,221,944	\$ 36,735,218	\$ 42,808,437	(72.17%)
Domestic equities	224,944,941	198,531,978	188,106,149	13.30%
International equities	183,661,538	161,920,567	208,486,201	13.43%
Fixed income investments	274,911,876	118,831,629	70,225,889	131.35%
Hedge fund investments	5,306,177	30,185,890	139,409,381	(82.42%)
Real estate investments	44,242,039	88,326,790	112,642,241	(49.91%)
Private debt and equity investments	<u>48,878,261</u>	<u>79,799,866</u>	<u>69,950,849</u>	(38.75%)
Total	<u>\$ 792,166,776</u>	<u>\$ 714,331,938</u>	<u>\$831,629,147</u>	

Requests for Information

Questions concerning any of the information provided or requests for additional financial information should be addressed to Warren Ponder, Executive Director, Municipal Employees' Retirement System of Louisiana, 7937 Office Park Boulevard, Baton Rouge, LA 70809.

Municipal Employees' Retirement System of Louisiana
Statements of Fiduciary Net Position
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash	\$ 37,393,904	\$ 35,475,599
Receivables:		
Member/employer contributions	6,014,807	5,213,671
Interest and dividends	996,774	1,936,974
Investment receivable	9,527,257	56,534,715
Other receivables	3,200	2,017
Total receivables	<u>16,542,038</u>	<u>63,687,377</u>
Investments, at fair value:		
Cash equivalents	10,221,944	36,735,218
Domestic equities	224,944,941	198,531,978
International equities	183,661,538	161,920,567
Fixed income investments	274,911,876	118,831,629
Hedge fund investments	5,306,177	30,185,890
Real estate investments	44,242,039	88,326,790
Private debt and equity investments	<u>48,878,261</u>	<u>79,799,866</u>
Total investments	<u>792,166,776</u>	<u>714,331,938</u>
Property plant, and equipment (net of depreciation)	<u>2,079,324</u>	<u>2,084,924</u>
Total assets	<u>848,182,042</u>	<u>815,579,838</u>
Liabilities		
Accounts payable	177,940	99,180
Refunds payable	363,410	336,517
Other payables	<u>114,795</u>	<u>66,345</u>
Total liabilities	<u>656,145</u>	<u>502,042</u>
Net Position Restricted For Pension Benefits	<u>\$ 847,525,897</u>	<u>\$ 815,077,796</u>

The accompanying notes are an integral part of these financial statements.

Municipal Employees' Retirement System of Louisiana
Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Additions		
Contributions:		
Members'	\$ 19,861,174	\$ 19,648,625
Employers'	50,138,738	42,716,962
Ad valorem taxes and revenue sharing	8,644,773	8,521,514
Total contributions	<u>78,644,685</u>	<u>70,887,101</u>
Investment income:		
Interest and dividend income	1,070,337	1,748,484
Net appreciation (depreciation) in fair value of investments	39,352,749	(23,101,349)
	40,423,086	(21,352,865)
Less investment expenses	(2,509,773)	(3,403,978)
Net investment income (loss)	<u>37,913,313</u>	<u>(24,756,843)</u>
Other Additions		
Assets transferred from other retirement systems	<u>1,195,787</u>	<u>1,286,454</u>
Total additions	<u>117,753,785</u>	<u>47,416,712</u>
Deductions		
Benefits	69,730,411	66,261,754
DROP withdrawals	7,534,282	6,895,118
Refund of contributions	4,464,060	4,715,641
Administrative expenses	1,977,172	1,613,357
Assets transferred to other retirement systems	1,599,759	1,106,407
Total deductions	<u>85,305,684</u>	<u>80,592,277</u>
Net Increase (Decrease)	32,448,101	(33,175,565)
Net Position Restricted For Pension Benefits		
Beginning of Year	<u>815,077,796</u>	<u>848,253,361</u>
End of Year	<u>\$847,525,897</u>	<u>\$815,077,796</u>

The accompanying notes are an integral part of these financial statements.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 1-Plan Description

The Municipal Employees' Retirement System of Louisiana (System) was established by Act 356 of the 1954 regular session of the Legislature of the State of Louisiana to provide retirement benefits to employees of all incorporated villages, towns, and cities within the state, which did not have their own retirement system and which elected to become members of the System.

The System is administered by a Board of Trustees composed of eleven members, three of whom shall be active and contributing members of the System with at least six years creditable service and who are elected to office in accordance with the Louisiana Election Code, three of whom shall be active and contributing members of the System with at least six years creditable service and who are not elected officials; one of whom shall be president of the Louisiana Municipal Association who shall serve as an ex-officio member during his tenure; one of whom shall be the Chairman of the Senate Retirement Committee; and one of whom shall be the Chairman of the House Retirement Committee of the Legislature of Louisiana; the commissioner of administration, and the State Treasurer.

The System is the administrator of a cost-sharing multiple-employer defined benefit pension plan. The System was established and provided for by R.S.11:1731 of the Louisiana Revised Statutes (LRS).

Act #569 of the year 1968 established by the Legislature of the State of Louisiana provides an optional method for municipalities to cancel Social Security and come under supplementary benefits in the Municipal Employees' Retirement System of Louisiana, effective on and after June 30, 1970.

Effective October 1, 1978, under Act #788, the "regular plan" and the "supplemental plan" were replaced, and are now known as Plan "A" and Plan "B." Plan A combines the original plan and the supplemental plan for those municipalities participating in both plans, while Plan B participates in only the original plan.

Plan Membership

For the year ended June 30, 2017, there were 84 contributing municipalities in Plan A and 68 in Plan B. For the year ended June 30, 2016 there were 85 contributing municipalities in Plan A and 68 in Plan B. At June 30, 2017 and 2016, statewide retirement membership consists of the following:

	<u>2017</u>			<u>2016</u>		
	<u>Plan A</u>	<u>Plan B</u>	<u>Total</u>	<u>Plan A</u>	<u>Plan B</u>	<u>Total</u>
Inactive plan members or beneficiaries receiving benefits	3,417	1,025	4,442	3,345	975	4,320
Inactive plan members entitled to but not yet receiving benefits	3,069	1,413	4,482	3,012	1,329	4,341
Active plan members	<u>4,937</u>	<u>2,125</u>	<u>7,062</u>	<u>4,912</u>	<u>2,142</u>	<u>7,054</u>
Total participants as of the valuation date	<u>11,423</u>	<u>4,563</u>	<u>15,986</u>	<u>11,269</u>	<u>4,446</u>	<u>15,715</u>

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 1-Plan Description (Continued)

Plan eligibility and benefits are as follows:

A. Eligibility Requirements

Membership is mandatory as a condition of employment beginning on the date employed if the employee is on a permanent basis working at least thirty-five hours per week. Those individuals paid jointly by a participating employer and the parish are not eligible for membership in the System with exceptions as outlined in the statutes.

Any person eligible for membership but whose first employment making him eligible for membership in the System occurred on or after January 1, 2013 shall become a member of the MERS Plan A Tier 2 or MERS Plan B Tier 2 of the System as a condition of employment.

B. Retirement Benefits

Benefit provisions are authorized within Act 356 of the 1954 regular session and amended by LRS 11:1756-11:1785. The following brief description of the plan and its benefits is provided for general information purposes only. Participants should refer to the appropriate statutes for more complete information.

Any member of Plan A who commenced participation in the System prior to January 1, 2013 can retire providing he meets one of the following criteria:

1. Any age with twenty-five (25) or more years of creditable service.
2. Age 60 with a minimum of ten (10) years of creditable service.
3. Any age with five (5) years of creditable service eligible for disability benefits.
4. Survivor's benefits require five (5) or more years creditable service with legal spouse at least last 12 months before death - 40% at age 60 or minimum of 20% immediately (actuarially calculated).
5. Any age with 20 years of creditable service, exclusive of military service with an actuarially reduced early benefit.

Generally, the monthly amount of the retirement allowance for any member of Plan A shall consist of an amount equal to three percent of the member's monthly average final compensation multiplied by his years of creditable service. Final average compensation is the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts. An additional regular retirement benefit can be received for any city marshal or deputy city marshal. See Plan Booklet for further details.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 1-Plan Description (Continued)

B. Retirement Benefits (Continued)

Any member of Plan A Tier 2 can retire providing he meets one of the following requirements.

1. Age 67 with seven (7) years of creditable service.
2. Age 62 with ten (10) years of creditable service.
3. Age 55 with thirty (30) years of creditable service.
4. Any age with twenty-five (25) years of creditable service with an actuarially reduced early benefit
5. Survivor's benefits require five or more years of creditable service with legal spouse at least last 12 months before death - 40% at age 60 or minimum of 20% immediately (actuarially calculated).

Generally, the monthly amount of retirement allowance for any member of Plan A Tier 2 shall consist of an amount equal to three percent of the member's final average compensation multiplied by his years of creditable service. Final average compensation is the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts. Any city marshal or deputy city marshal shall receive an additional regular benefit computed on supplemental marshal's earnings. See Plan booklet for further details.

Any member of Plan B who commenced participation in the System prior to January 1, 2013 can retire providing he meets one of the following criteria:

1. Any age with thirty (30) years of creditable service.
2. Age 60 with a minimum of ten (10) or more years of creditable service.
3. Any age with ten (10) years of creditable service eligible for disability benefits.
4. Survivor's benefits require five (5) years creditable service at death of member.

Generally, the monthly amount of the retirement allowance for any member of Plan B shall consist of an amount equal to two percent of the member's monthly average final compensation multiplied by his years of creditable service. Final average compensation is the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts.

Any member of Plan B Tier 2 shall be eligible for retirement if he meets one of the following requirements:

1. Seven (7) years or more of service, at age sixty-seven or thereafter.
2. Ten (10) years or more of service, at age sixty-two, or thereafter.
3. Thirty (30) years or more of service, at age fifty-five or thereafter.
4. Twenty-five (25) years of service credit at any age, exclusive of military service and unused annual sick leave.

The monthly amount of the retirement allowance for any member of Plan B Tier 2 shall consist of an amount equal to two percent of the member's final compensation multiplied by his years of creditable service. Final average compensation is the average monthly earnings during the highest sixty consecutive months, or joined months if service was interrupted. However, under certain conditions as outlined in the statutes, the benefits are limited to specified amounts.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 1-Plan Description (Continued)

C. Survivor Benefits

Upon death of any member of Plan A with five (5) or more years of creditable service, not eligible for retirement, the plan provides for benefits for the surviving spouse and minor children as outlined in the statutes.

Any member of Plan A who is eligible for normal retirement at time of death and who leaves a surviving spouse will be deemed to have retired and selected Option 2 benefits on behalf of the surviving spouse on the date of death. Such benefits will begin only upon proper application and are paid in lieu of any other survivor benefits.

Upon death of any member of Plan B with five (5) or more years of creditable service, not eligible for normal retirement, the plan provides for benefits for the surviving spouse as outlined in the statutes.

1. Surviving spouse who is married no less than twelve (12) months immediately preceding death of member, shall be paid a monthly benefit equal to thirty percent of the member's final compensation, payable when the surviving spouse attains the age of sixty years or becomes disabled and payable for as long as the surviving spouse lives, or
2. A monthly benefit equal to the actuarial equivalent of the benefit described above, but not less than fifteen percent of the member's final compensation, payable upon the death of the member and payable for as long as the surviving spouse lives. Selecting this benefit precludes the survivor from eligibility for the thirty-percent benefit payable when the surviving spouse attains the age of sixty years.

Any member of Plan B who is eligible for normal retirement at time of death and who leaves a surviving spouse will be deemed to have retired and selected Option 2 benefits on behalf of the surviving spouse on the date of death. Such benefits will begin only upon proper application and are paid in lieu of any other survivor benefits.

Any member of Plan A or Plan B who had not withdrawn their accumulated contributions and had at least twenty years of service credit at time of death, surviving spouse shall receive benefits for as long as he/she lives as outlined in the statutes.

D. DROP Benefits

In lieu of terminating employment and accepting a service retirement allowance, any member of Plan A or B who is eligible to retire may elect to participate in the deferred retirement option plan (DROP) for up to three years and defer the receipt of benefits. During participation in the plan, employer contributions are payable but employee contributions cease. The monthly retirement benefits that would be payable, had the person elected to cease employment and receive a service retirement allowance, are paid into the DROP Fund. Interest is earned when the member has completed DROP participation. Interest earnings are based upon the actual rate of return on the investments identified as DROP funds for the period. In addition, no cost-of-living increases are payable to participants until employment which made them eligible to become members of the System has been terminated for at least one full year.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 1-Plan Description (Continued)

D. DROP Benefits (Continued)

Upon termination of employment prior to or at the end of the specified period of participation, a participant in the DROP may receive, at his option, a lump sum from the account equal to the payments into the account, a true annuity based upon his account balance in that fund, or any other method of payment if approved by the board of trustees. If a participant dies during the participation in the DROP, a lump sum equal to the balance in his account shall be paid to his named beneficiary or, if none, to his estate. If employment is not terminated at the end of the three years, payments into the DROP fund cease and the person resumes active contributing membership in the System.

E. Disability Benefits

For Plan A, a member shall be eligible to retire and receive a disability benefit if he has at least five years of creditable service, is not eligible for normal retirement, and has been officially certified as disabled by the State Medical Disability Board. Upon retirement caused by disability, a member of Plan A shall be paid a disability benefit equal to the lesser of forty-five percent of his final average compensation or three percent of his final average compensation multiplied by his years of creditable service, whichever is greater, or an amount equal to three percent of the member's final average compensation multiplied by his years of creditable service projected to his earliest normal retirement age.

For Plan B, a member shall be eligible to retire and receive a disability benefit if he has at least ten years of creditable service, in which he would receive a regular retirement under retirement provisions. A member shall be eligible to retire and receive a disability benefit if he has at least ten years of creditable service, is not eligible for normal retirement, and has been officially certified as disabled by the State Medical Disability Board. Upon retirement caused by disability, a member of Plan B shall be paid a disability benefit equal to the lesser of thirty percent of his final average compensation or two percent of his final average compensation multiplied by his years of creditable service, whichever is greater, or an amount equal to two percent of the member's final average compensation multiplied by his years of creditable service, projected to his earliest normal retirement age.

F. Cost of Living Increases

The System is authorized under state law to grant a cost of living increase to members who have been retired for at least one year. The adjustment cannot exceed 2% of the retiree's original benefit for each full calendar year since retirement and may only be granted if sufficient funds are available from investment income in excess of normal requirements. State law allows the System to grant additional cost of living increases to all retirees and beneficiaries who are age sixty-five and above equal to 2% of the benefit being received on October 1, 1977, or the original benefit, if retirement commenced after that date.

G. Deferred Benefits

Both Plans provide for deferred benefits for members who terminate before being eligible for retirement. Once the member reaches the appropriate age for retirement, benefits become payable. Benefits are based on statutes in effect at time of withdrawal.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 2-Summary of Significant Accounting and Financial Reporting Policies

A. Basis of Accounting and Presentation

The System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting. Employer and employee contributions are recognized in the period in which the employee is compensated for services performed. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan. Interest income is recognized when earned. Ad valorem taxes and revenue sharing monies are recognized in the year collected by the tax collector.

The System has no component units as defined under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* (GASB 14), as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB 61).

B. Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales prices 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 limited partnerships (which include private equities and hedge funds) is calculated as the System's percentage of ownership of the partner's capital reported by the partnership. Fair value of real estate investment trusts is calculated based on the System's share of income and expenses as reported by the trust. Investments that do not have an established market value are reported at estimated fair value using valuation techniques such as present value of estimated future cash flows, matrix pricing, and fundamental analysis.

C. Property, Plant and Equipment

Property, plant and equipment is recorded at cost, and depreciated over its estimated useful life. Depreciation is computed using the straight line method and is allocated between the two Plans based on each Plan's member earnings.

D. New Accounting Pronouncements

During the year ended June 30, 2017, the System adopted GASB Statement No. 82, *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 2-Summary of Significant Accounting and Financial Reporting Policies (Continued)

E. 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 actuarial information included in the required supplementary information as of the benefit information date, and the reported amounts of additions to and deductions from plan net position during the reporting period. Actual results could differ from those estimates. The System utilizes various investment instruments, which, by nature, are exposed to a variety of risk levels and risk types, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the Statements of Fiduciary Net Position.

Note 3-Contributions, Funding Status and Reserves

A. Contributions

Contributions for all members are established by statute. Member contributions are at 9.50% of earnable compensation for Plan A and 5% of earnable compensation for Plan B. The contributions are deducted from the member's salary and remitted by the participating municipality.

According to state statute, contributions for all employers are actuarially determined each year. For the year ended June 30, 2017, the employer contribution rate was 22.75% of member's earnings for Plan A. For the year ended June 30, 2017, the employer contribution rate was 11.00% of member's earnings for Plan B.

According to state statute, the System also receives one-fourth (1/4) of 1% of ad valorem taxes collected within the respective parishes except for Orleans. Tax monies are apportioned between Plan A and Plan B in proportion to salaries of plan participants. Tax monies received from East Baton Rouge Parish are apportioned between the Municipal Employee's Retirement System and the Employee's Retirement System of the City of Baton Rouge. The System also receives revenue sharing funds each year as appropriated by the Legislature. These additional sources of income are used as additional employer contributions and considered support from non-employer contributing entities.

Administrative costs of the System are financed through employer contributions.

B. Reserves

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

Annuity Savings

The Annuity Savings 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 Annuity Reserve. When a member retires, the amount of his accumulated contributions is transferred to Annuity Reserve to provide part of the benefits.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 3-Contributions, Funding Status and Reserves (Continued)

B. Reserves (Continued)

Pension Accumulation Reserve

The Pension Accumulation Reserve 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 Annuity Reserve to fund retirement benefits for existing recipients. It is also relieved when expenditures are not covered by other accounts.

Annuity Reserve

The Annuity Reserve 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 beneficiaries also receive benefits from this reserve account.

Deferred Retirement Option Account

The Deferred Retirement Option Account 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.

Funding Deposit Account

The Funding Deposit Account consists of excess contributions collected by the System. The excess funds earn interest at the board approved actuarial valuation rate and are credited to the fund at least once a year. These funds are due to the System freezing the employer rate at a higher rate than actuarially required. The excess funds can be used for the following purposes: (1) reduce the unfunded accrued liability, (2) reduce the present value of future normal, and/or (3) pay all or a portion of any future net direct employer contributions. The Funding Deposit Account was established as of January 1, 2009.

The balances of the reserve funds at June 30, 2017 and 2016 were as follows:

<u>Reserve Funds</u>	<u>2017</u>		<u>2016</u>	
	<u>Plan A</u>	<u>Plan B</u>	<u>Plan A</u>	<u>Plan B</u>
Annuity Savings	\$119,652,205	\$ 27,368,051	\$ 115,302,740	\$ 26,392,082
Pension Accumulation Reserve				
(Deficit)	(34,085,184)	15,747,125	(27,738,274)	15,939,207
Annuity Reserve	574,510,475	97,236,980	546,113,494	91,161,269
Deferred Retirement Option Account	28,868,037	6,829,072	29,777,015	6,475,303
Funding Deposit Account	<u>8,112,406</u>	<u>3,286,730</u>	<u>8,421,235</u>	<u>3,233,725</u>
	<u>\$697,057,939</u>	<u>\$150,467,958</u>	<u>\$ 671,876,210</u>	<u>\$143,201,586</u>

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 3-Contributions, Funding Status and Reserves (Continued)

C. Funding Status

The components of the net pension liability of the System's employers for Plan A determined in accordance with GASB No. 67 as of June 30, 2017 and 2016 are as follows:

	<u>Plan A</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Total pension liability	\$1,115,400,101	\$ 1,081,747,268
Plan fiduciary net position	697,057,939	671,876,210
Employer's net pension liability	<u>\$ 418,342,162</u>	<u>\$ 409,871,058</u>
Plan fiduciary net position as a % of the total pension liability	62.49%	62.11%

The components of the net pension liability of the System's employers for Plan B determined in accordance with GASB No. 67 as of June 30, 2017 and 2016 are as follows:

	<u>Plan B</u>	
	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Total pension liability	\$ 236,991,237	\$ 226,092,430
Plan fiduciary net position	150,467,958	143,201,586
Employer's net pension liability	<u>\$ 86,523,279</u>	<u>\$ 82,890,844</u>
Plan fiduciary net position as a % of the total pension liability	63.49%	63.34%

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, 2017 valuation was based on the results of an experience study, for the period July 2009 through June 30, 2014. 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, 2017 is based on actuarial valuations for the same period, updated using generally accepted actuarial principles.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 3-Contributions, Funding Status and Reserves (Continued)

C. Funding Status (Continued)

Information on the actuarial valuation and assumptions is as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Valuation date	June 30, 2017	June 30, 2016
Actuarial cost method	Entry age normal cost	Entry age normal cost
Expected remaining service lives	3 years-Plan A and 4 years-Plan B	3 years-Plan A and 4 years-Plan B
Investment rate of return	7.400%	7.500%
Inflation rate	2.775%	2.875%
Salary increases, including inflation and merit increases	5.000%	5.000%
Annuitant and beneficiary mortality	RP-2000 Healthy Annuitant Sex Distinct Mortality Tables set forward 2 years for males and set forward 1 year for females projected to 2028 using scale AA.	RP-2000 Healthy Annuitant Sex Distinct Mortality Tables set forward 2 years for males and set forward 1 year for females projected to 2028 using scale AA.
Employee mortality	RP-2000 Employees Sex Distinct Table set back 2 years for both males and females.	RP-2000 Employees Sex Distinct Table set back 2 years for both males and females.
Disabled lives mortality	RP-2000 Disabled Lives Mortality Table set back 5 years for males and set back 3 years for females.	RP-2000 Disabled Lives Mortality Table set back 5 years for males and set back 3 years for females.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 3-Contributions, Funding Status and Reserves (Continued)

C. Funding Status (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimated ranges 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 ranges 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 and an adjustment for the effect of rebalancing/diversification.

The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2017 and 2016 are summarized in the following table:

<u>Asset Class</u>	2017		2016	
	<u>Target Asset Allocation</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Portfolio Real Rate of Return</u>
Public equity	50%	2.3%	50%	2.6%
Public fixed income	35%	1.6%	35%	1.8%
Alternatives	<u>15%</u>	<u>0.7%</u>	<u>15%</u>	<u>0.8%</u>
Totals	<u>100%</u>	<u>4.6%</u>	<u>100%</u>	<u>5.2%</u>
Inflation		2.6%		2.5%
Expected Arithmetic Nominal Return		7.2%		7.6%

The discount rate used to measure the total pension liability was 7.40% for the year ended June 30, 2017. The projection of cash flows used to determine the discount rate assumed 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, which are calculated in accordance with relevant statutes and approved by the Board of Trustees and the Public Retirement Systems' Actuarial Committee. Based on those 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 as of June 30, 2017 using the discount rate of 7.40%, 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 (6.40%) or one percentage point higher (8.40%) than the current rate.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 3-Contributions, Funding Status and Reserves (Continued)

C. Funding Status (Continued)

	Changes in Discount Rate		
	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1%</u> <u>Increase</u>
2016 Discount Rate	6.50%	7.50%	8.50%
2016 Employer Net Pension Liability – Plan A	\$ 521,022,417	\$ 409,871,058	\$315,024,895
2016 Employer Net Pension Liability – Plan B	\$ 107,230,134	\$ 82,890,844	\$ 62,124,559
2017 Discount Rate	6.40%	7.40%	8.40%
2017 Employer Net Pension Liability – Plan A	\$ 533,106,979	\$ 418,342,162	\$320,450,929
2017 Employer Net Pension Liability – Plan B	\$ 111,951,406	\$ 86,523,579	\$ 64,823,898

Note 4-Deposits, Cash Equivalents and Investments

Following are the components of the System's deposits, cash equivalents and investments at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash	\$ 37,393,904	\$ 35,475,599
Cash equivalents	10,221,944	36,735,218
Investments	<u>781,944,832</u>	<u>677,596,720</u>
Total	<u>\$ 829,560,680</u>	<u>\$ 749,807,537</u>

A. Funding Status

The System's bank deposits were fully covered by federal depository insurance and pledged securities. The pledged securities are held in joint custody with the System's bank.

B. Cash Equivalents

For the years ended June 30, 2017 and 2016, cash equivalents in the amount of \$10,221,944 and \$36,735,218, respectively consist of government backed pooled funds which are held by a sub-custodian, managed by a separate money manager, and are in the name of the Retirement System's custodian's trust department. At June 30, 2017 and 2016, these cash equivalents were unrated.

C. Investments

Statutes authorize the System to invest under the Prudent-Man Rule. The Prudent-Man Rule shall require each fiduciary of a retirement system and each board of trustees acting collectively on behalf of each system to act with care, skill, prudence and diligence under the circumstances prevailing that a prudent institutional investor acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

D. Fair Value Measurements

The System categorizes fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurements and Application*. The valuation technique uses a three level hierarchy of inputs to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These qualifications are summarized as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs: Unobservable inputs for an asset or liability.

In the event that inputs used to measure the fair value of an asset or liability fall into different levels in the fair value hierarchy, the overall level of the fair value hierarchy in its entirety is determined based on the lowest level input that is significant to the entire valuation. These levels are not necessarily an indication of risk, but are based upon the pricing transparency of the investment. In determining the appropriate levels, the System performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Fair value of certain investments that do not have a readily determinable fair value is established using net asset value (or its equivalent) as a practical expedient. These investments are not categorized according to the fair value hierarchy.

The following table sets forth by levels, the investments reported at fair value as of June 30, 2017:

Investments by Fair Value Level	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Debt Securities				
U.S. Government and agency obligations	\$ 145,611	\$ -	\$ 145,611	\$ -
Corporate bonds	3,507,715	-	-	3,507,715
Mutual funds	271,258,550	-	271,258,550	-
Total debt securities	<u>274,911,876</u>	<u>-</u>	<u>271,404,161</u>	<u>3,507,715</u>
Equity Securities				
Domestic stock	46,335,052	46,335,052	-	-
Domestic equity	178,609,889	-	178,609,889	-
Foreign equity	183,661,538	-	183,661,538	-
Total equity securities	<u>408,606,479</u>	<u>46,335,052</u>	<u>362,271,427</u>	<u>-</u>
Cash equivalents	<u>10,221,944</u>	<u>-</u>	<u>10,221,944</u>	<u>-</u>
Total investments at Fair Value Level	<u>\$ 693,740,299</u>	<u>\$ 46,335,052</u>	<u>\$ 643,897,532</u>	<u>\$ 3,507,715</u>

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

D. Fair Value Measurements (Continued)

**Investments measured at the
Net Asset Value (NAV)**

Hedge funds	\$ 5,306,177
Private debt	16,257,517
Private equity	32,620,744
Real estate	44,242,039
Total investments at NAV	<u>98,426,477</u>

Total Investments at Fair Value \$792,166,776

The following table sets forth by level, the investments reported at fair value as of June 30, 2016:

Investments by Fair Value Level	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Debt Securities				
U.S. Government and agency obligations	\$ 198,860	\$ -	\$ 198,860	\$ -
Corporate bonds	3,507,715	-	-	3,507,715
Mutual funds	115,125,054	-	115,125,054	-
Total debt securities	<u>118,831,629</u>	<u>-</u>	<u>115,323,914</u>	<u>3,507,715</u>
Equity Securities				
Domestic stock	36,437,115	36,437,115	-	-
Domestic equity	162,094,863	-	157,094,863	5,000,000
Foreign equity	161,920,567	-	161,920,567	-
Total equity securities	<u>360,452,545</u>	<u>36,437,115</u>	<u>319,015,430</u>	<u>5,000,000</u>
Cash equivalents	<u>36,735,218</u>	<u>-</u>	<u>36,735,218</u>	<u>-</u>
Total investments at Fair Value Level	<u>\$516,019,392</u>	<u>\$ 36,437,115</u>	<u>\$ 471,074,562</u>	<u>\$ 8,507,715</u>
Investments measured at the Net Asset Value (NAV)				
Hedge funds	\$ 30,185,890			
Private debt	18,000,000			
Private equity	61,799,866			
Real estate	88,326,790			
Total investments at NAV	<u>198,312,546</u>			
Total Investments at Fair Value	<u>\$ 714,331,938</u>			

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

E. Valuation Technique

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.

Investments classified in Level 3 of the fair value hierarchy are valued using unobservable inputs and are not directly corroborated with market data.

F. Private Equity

This type includes private equity funds that invest diversely across private equity sub-categories including venture capital, growth equity, private credit, buyout and special situations. The fair values of the investments in this type have been determined using the NAV per share of the System's ownership interest in partners' capital or other means. These are illiquid investments with a typical length of investment, or holding period, of 10-15 years.

G. Private Debt

This type includes private equity funds that invest in senior debt, second lien, mezzanine or structured credit. Investments are made in the United States and Europe. The fair values of the investments in this type have been determined using the NAV per share of the System's ownership interest in partners' capital or other means. These are illiquid investments with a typical length of investment, or holding period, of 10-15 years.

H. Real Estate

This type includes real estate funds and direct ownership of real estate that invest primarily in major property types including office, residential, retail, industrial, hotel, and self-storage properties. The fair values of the investments in real estate funds have been determined using the NAV per share of the Plan's ownership interest in partners' capital while the fair value of the direct ownership in real estate is determined using independent appraisals or other means. These are illiquid investments with a length of investment often over 10 years. Returns are generated by capital appreciation and income from lease agreements.

This type includes partnerships that invest in a diversified group of energy, infrastructure, natural resources, and hard asset 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 or other means. This is an illiquid investment with a length of investment often over 10 years.

I. Hedge Funds

This type includes partnerships that invest directly in publicly traded equities, equity futures, options, currencies, derivatives, commodities, fixed income instruments and index futures. The fair values of the investments in this type have been determined using the NAV per share of the System's ownership interest in partners' capital. These funds can typically be liquidated within one year (except for any side pocket assets).

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

J. Concentration of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of the System's investment in a single issuer or market exposure. As stipulated in Louisiana RS 11:263, no more than 65% of the total portfolio shall be invested in equities. Should equities comprise more than 55% of the System's assets, at least 10% of the total must be invested passively. The System's investment policy in effect through March 31, 2016 specified that 35% to 65% of the investment portfolio can be invested in public equities, 5% to 25% of the investment portfolio can be invested in public fixed income and 20% to 50% of the investment portfolio can be invested in alternatives. The System's investment policy subsequent to March 31, 2016 specifies that 50% of the investment portfolio can be invested in public equities, 35% of the investment portfolio can be invested in public fixed income and 15% of the investment portfolio can be invested in alternatives.

Prior to March 31, 2016, the components of the System's investment portfolio fell within the allowable ranges. Beginning April 1, 2016 the System began the process of moving toward the newly established target asset allocation.

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Following are the credit ratings of the System's investments in long-term debt securities as of June 30, 2017 and 2016.

	<u>2017</u>					
	<u>Federal Home Loan Mortgage Corporation</u>	<u>Federal National Mortgage Association</u>	<u>Government National Mortgage Association</u>	<u>Corporate Bonds</u>	<u>Asset Backed Securities</u>	<u>Total Bonds</u>
AA+	\$ 3,792	\$ 110,215	\$ 31,592	\$ -	\$ -	\$ 145,599
Aaa	-	-	-	-	12	12
Not Rated	-	-	-	<u>3,507,715</u>	-	<u>3,507,715</u>
	<u>\$ 3,792</u>	<u>\$ 110,215</u>	<u>\$ 31,592</u>	<u>\$ 3,507,715</u>	<u>\$ 12</u>	<u>\$ 3,653,326</u>
	<u>2016</u>					
AA+	\$ 5,280	\$ 137,655	\$ 55,925	\$ -	\$ -	\$ 198,860
Not Rated	-	-	-	<u>3,507,715</u>	-	<u>3,507,715</u>
	<u>\$ 5,280</u>	<u>\$ 137,655</u>	<u>\$ 55,925</u>	<u>\$ 3,507,715</u>	<u>\$ -</u>	<u>\$ 3,706,575</u>

The System has no formal investment policy regarding credit risk.

At June 30, 2017, the System was invested in three fixed income mutual funds in the amount of \$271,258,550. The weighted average credit rating of holdings in the funds are as follows: Brandywine Global Opportunistic Fixed Income Fund in the amount of \$35,880,025, has a credit rating ranging from AAA to CCC or lower with the majority of holdings rated from AAA to BBB; Loomis Sayles in the amount of \$38,001,346, has a credit rating ranging from AAA to CAA or lower with the majority of holdings rated from Aaa to Baa; NT Collective Aggregate Bond Index Fund in the amount of \$135,890,725, has a credit rating ranging from AAA to BBB; and Northern Trust Treasury Inflation-Protected Securities (TIPS) Index Fund in the amount of \$61,486,454 has a credit rating of AAA.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

K. 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. The System has no formal investment policy regarding custodial credit risk. At June 30, 2017, the System was not exposed to custodial credit risk.

L. 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, 2017 and 2016, the System had the following investments in long-term debt securities and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>2017</u> <u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Corporate Bonds	\$ 3,507,715	\$ –	\$ –	\$ –	\$ 3,507,715
Federal Home Loan Mortgage Corporation	3,792	–	3	3,789	–
Federal National Mortgage Association	110,215	–	17,296	63,080	29,839
Government National Mortgage Association	31,592	5,766	7,543	18,283	–
Asset Backed Securities	12	–	–	–	12
	<u>\$ 3,653,326</u>	<u>\$ 5,766</u>	<u>\$ 24,842</u>	<u>\$ 85,152</u>	<u>\$ 3,537,566</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>2016</u> <u>Investment Maturities (in years)</u>			
		<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Corporate Bonds	\$ 3,507,715	\$ –	\$ –	\$ –	\$ 3,507,715
Federal Home Loan Mortgage Corporation	5,280	68	30	5,182	–
Federal National Mortgage Association	137,655	–	27,727	73,549	36,379
Government National Mortgage Association	55,925	502	33,730	21,693	–
	<u>\$ 3,706,575</u>	<u>\$ 570</u>	<u>\$ 61,487</u>	<u>\$ 100,424</u>	<u>\$ 3,544,094</u>

The System has no formal investment policy regarding interest rate risk.

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 4-Deposits, Cash Equivalents and Investments (Continued)

M. Foreign Currency Risk

The System does not have any foreign currency risk due to all investments being denominated in U.S. dollars. The System has no formal investment policy regarding foreign currency risk.

N. Unfunded Commitments

At June 30, 2017, the System has committed to invest an additional \$26,600,000 in various investments.

O. Money-Weighted Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (3.5%) for Plan A and (5.4%) for Plan B. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (3.1%) for Plan A and (2.2%) for Plan B. The money-weighted return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Note 5-Property, Plant, and Equipment

Changes in property, plant and equipment as of June 30, 2017, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 389,547	\$ -	\$ -	\$ 389,547
Building	2,044,550	89,371	-	2,133,921
Furnishings and equipment	469,664	-	(82,011)	387,653
Accumulated depreciation	<u>(818,837)</u>	<u>(91,715)</u>	<u>78,755</u>	<u>(831,797)</u>
	<u>\$2,084,924</u>	<u>\$ (2,344)</u>	<u>\$ (3,256)</u>	<u>\$ 2,079,324</u>

Changes in property, plant and equipment as of June 30, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 389,547	\$ -	\$ -	\$ 389,547
Construction in progress	405,434	-	(405,434)	-
Building	791,968	1,252,582	-	2,044,550
Furnishings and equipment	321,235	149,879	(1,450)	469,664
Accumulated depreciation	<u>(727,726)</u>	<u>(92,309)</u>	<u>1,198</u>	<u>(818,837)</u>
	<u>\$1,180,458</u>	<u>\$1,310,152</u>	<u>\$(405,686)</u>	<u>\$2,084,924</u>

Municipal Employees' Retirement System of Louisiana
Notes to Financial Statements
June 30, 2017

Note 5-Property, Plant, and Equipment (Continued)

The cost of property, plant and equipment is being depreciated over its useful life using the straight-line method. Depreciation expense for the years ended June 30, 2017 and 2016 was \$91,715 and \$92,309, respectively and is included in administrative expenses on the statements of changes in fiduciary net position.

Note 6-Tax Qualifications

The System is a tax qualified plan under IRS Code Section 401(a)

Note 7-Vacation and Sick Leave

Employees of the System accumulate unlimited amounts of vacation and sick leave. For the year ended June 30, 2017, upon resignation or retirement, unused vacation leave up to 300 hours is payable to employees (who were employed by the System on December 31, 2004) at the employees' rate of pay as of termination or retirement. Upon retirement, unused vacation leave in excess of 300 hours and unused sick leave are credited as earned service in computing retirement benefits. The liability for accumulated vacation leave of up to 300 hours, payable at June 30, 2017 and 2016 was \$78,644 and \$64,515, respectively, which is included in "other payables" on the statements of fiduciary net position.

Note 8-Other Postemployment Benefits (OPEB)

All employees are eligible for postemployment health care benefits when they reach normal retirement age while working for the System. At June 30, 2017, four retirees were receiving post-employment benefits. The amount of the Net OPEB obligation at June 30, 2017 and 2016 was \$22,958 and \$18,578 respectively, which was not material to the financial statements.

Note 9-Subsequent Events

The System evaluated all subsequent events through December 11, 2017, the date the financial statements were available to be issued. As a result, management noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

Required Supplementary Information

**Municipal Employees' Retirement System of Louisiana
Schedules of Changes in Net Pension Liability - Plan A
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service cost	\$ 24,275,565	\$ 23,781,922	\$ 23,096,097	\$ 23,140,535
Interest	80,406,612	78,661,214	75,893,993	74,566,028
Differences between expected and actual experience	(12,403,109)	(13,416,767)	(12,035,176)	(20,239,083)
Changes of assumptions	10,492,664	-	44,760,830	-
Benefit payments	(65,477,729)	(62,293,294)	(58,350,147)	(55,232,429)
Refunds of member contributions	(3,455,854)	(3,691,857)	(3,607,850)	(3,894,171)
Other	(185,316)	2,506,020	(274,719)	712,070
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in total pension liability	33,652,833	25,547,238	69,483,028	19,052,950
Total pension liability - beginning	<u>1,081,747,268</u>	<u>1,056,200,030</u>	<u>986,717,002</u>	<u>967,664,052</u>
Total pension liability - ending (a)	<u>\$ 1,115,400,101</u>	<u>\$ 1,081,747,268</u>	<u>\$ 1,056,200,030</u>	<u>\$ 986,717,002</u>
Plan Fiduciary Net Position:				
Contributions - member	\$ 16,336,439	\$ 16,147,447	\$ 15,293,103	\$ 14,768,535
Contributions - employer	41,480,630	35,737,280	34,062,068	31,501,412
Contributions - nonemployer contributing entities	6,155,079	6,059,222	5,937,609	5,741,515
Net investment income (loss)	31,251,320	(20,424,673)	(22,780,531)	80,430,073
Benefit payments	(65,477,729)	(62,293,294)	(58,350,147)	(55,232,429)
Refunds of member contributions	(3,455,854)	(3,691,857)	(3,607,850)	(3,894,171)
Administrative expenses	(922,840)	(1,148,300)	(1,367,711)	(1,677,654)
Other	(185,316)	2,506,020	(274,719)	712,070
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in plan fiduciary net position	25,181,729	(27,108,155)	(31,088,178)	72,349,351
Total fiduciary net position - beginning	<u>671,856,210</u>	<u>698,984,365</u>	<u>730,072,543</u>	<u>657,723,192</u>
Total fiduciary net position - ending (b)	<u>\$ 697,057,939</u>	<u>\$ 671,876,210</u>	<u>\$ 698,984,365</u>	<u>\$ 730,072,543</u>
Net pension liability (asset) - ending (a) - (b)	418,342,162	409,871,058	357,215,665	256,644,459
Plan fiduciary net position as a percentage of the total pension liability	62.49%	62.11%	66.18%	73.99%
Covered-employee payroll	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
Net pension liability (asset) as a percentage of covered-employee payroll	229.44%	226.51%	207.12%	152.76%

**Municipal Employees' Retirement System of Louisiana
Schedules of Changes in Net Pension Liability - Plan B
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service cost	\$ 6,045,761	\$ 5,950,157	\$ 5,703,335	\$ 5,558,785
Interest	16,949,121	16,215,425	15,681,899	15,153,572
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(1,895,698)	906,476	(1,826,199)	(1,138,351)
Changes of assumptions	2,325,900	-	8,261,069	-
Benefit payments	(11,786,964)	(10,863,578)	(13,185,825)	(9,846,376)
Refunds of member contributions	(1,008,206)	(1,023,784)	(1,113,933)	(864,399)
Other	268,893	(2,325,973)	104,328	(944,055)
	<u>10,898,807</u>	<u>8,858,723</u>	<u>13,624,674</u>	<u>7,919,176</u>
Net change in total pension liability				
	10,898,807	8,858,723	13,624,674	7,919,176
Total pension liability - beginning	<u>226,092,430</u>	<u>217,233,707</u>	<u>203,609,033</u>	<u>195,689,857</u>
Total pension liability - ending (a)	<u>\$ 236,991,237</u>	<u>\$ 226,092,430</u>	<u>\$ 217,233,707</u>	<u>\$ 203,609,033</u>
Plan Fiduciary Net Position:				
Contributions - member	\$ 3,507,946	\$ 3,501,178	\$ 3,296,735	\$ 3,223,747
Contributions - employer	8,187,348	6,979,682	6,589,957	5,950,944
Contributions - nonemployer contributing entities	2,489,694	2,462,292	2,403,252	2,260,931
Net investment income (loss)	6,661,993	(4,332,169)	(4,932,969)	16,488,707
Benefit payments	(11,786,964)	(10,863,578)	(13,185,825)	(9,846,376)
Refunds of member contributions	(1,008,206)	(1,023,784)	(1,113,933)	(864,399)
Administrative expenses	(1,054,332)	(465,057)	(551,946)	(354,166)
Other	268,893	(2,325,973)	104,328	(944,055)
	<u>7,266,372</u>	<u>(6,067,409)</u>	<u>(7,390,401)</u>	<u>15,915,333</u>
Net change in plan fiduciary net position				
	7,266,372	(6,067,409)	(7,390,401)	15,915,333
Total fiduciary net position - beginning	<u>143,201,586</u>	<u>149,268,995</u>	<u>156,659,396</u>	<u>140,744,063</u>
Total fiduciary net position - ending (b)	<u>\$ 150,467,958</u>	<u>\$ 143,201,586</u>	<u>\$ 149,268,995</u>	<u>\$ 156,659,396</u>
Net pension liability (asset) - ending (a) - (b)	86,523,279	82,890,844	67,964,712	46,949,637
Plan fiduciary net position as a percentage of the total pension liability	63.49%	63.34%	68.71%	76.94%
Covered-employee payroll	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
Net pension liability (asset) as a percentage of covered-employee payroll	116.25%	112.82%	97.98%	69.03%

**Municipal Employees' Retirement System of Louisiana
Schedules of Employers' Net Pension Liability - Plan A
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Total pension liability	\$ 1,115,400,101	\$ 1,081,747,268	\$1,056,200,030	\$ 986,717,002
Plan fiduciary net position	<u>697,057,939</u>	<u>671,876,210</u>	<u>698,984,365</u>	<u>730,072,543</u>
Net pension liability (asset)	<u>\$ 418,342,162</u>	<u>\$ 409,871,058</u>	<u>\$ 357,215,665</u>	<u>\$ 256,644,459</u>
Plan fiduciary net position as a percentage of the total pension liability	62.49%	62.11%	66.18%	73.99%
Covered-employee payroll	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
Net pension liability (asset) as a percentage of covered-employee payroll	229.44%	226.51%	207.12%	152.76%

**Schedules of Contributions
Employer and Non-Employer Contributing Entities - Plan A
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Actuarially determined contribution (determined as of the prior fiscal year) ¹	\$ 48,556,690	\$ 41,221,565	\$ 41,843,813	\$ 37,302,561
Contributions in relation to the actuarially determined contribution ¹	<u>47,635,709</u>	<u>41,796,502</u>	<u>39,999,677</u>	<u>37,242,927</u>
Contribution deficiency (excess)	<u>\$ 920,981</u>	<u>\$ (574,937)</u>	<u>\$ 1,844,136</u>	<u>\$ 59,634</u>
Covered-employee payroll	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
Contributions as a percentage of covered employee payroll	26.13%	23.10%	23.19%	22.17%

**Schedules of Investment Returns - Plan A
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Annual money-weighted rate of return, net of investment expense	3.5%	-3.1%	-2.80%	13.00%

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

¹ Includes contributions from employers and non-employer contributing entities as well as funds allocated to the Funding Deposit Account. Does not include funds withdrawn from the Funding Deposit Account.

**Municipal Employees' Retirement System of Louisiana
Schedules of Employers' Net Pension Liability - Plan B
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Total pension liability	\$ 236,991,237	\$ 226,092,430	\$ 217,233,707	\$203,609,033
Plan fiduciary net position	<u>150,467,958</u>	<u>143,201,586</u>	<u>149,268,995</u>	<u>156,659,396</u>
Net pension liability (asset)	<u>\$ 86,523,279</u>	<u>\$ 82,890,844</u>	<u>\$ 67,964,712</u>	<u>\$ 46,949,637</u>
Plan fiduciary net position as a percentage of the total pension liability	63.49%	63.34%	68.71%	76.94%
Covered-employee payroll	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
Net pension liability (asset) as a percentage of covered-employee payroll	116.25%	112.82%	97.98%	69.03%

**Schedules of Contributions
Employer and Non-Employer Contributing Entities - Plan B
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Actuarially determined contribution (determined as of the prior fiscal year) ¹	\$ 10,867,196	\$ 9,593,456	\$ 9,309,715	\$ 8,235,689
Contributions in relation to the actuarially determined contribution ¹	<u>10,677,042</u>	<u>9,441,974</u>	<u>8,993,209</u>	<u>8,211,875</u>
Contribution deficiency (excess)	<u>\$ 190,154</u>	<u>\$ 151,482</u>	<u>\$ 316,506</u>	<u>\$ 23,494</u>
Covered-employee payroll	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
Contributions as a percentage of covered employee payroll	14.34%	12.85%	12.96%	12.07%

**Schedules of Investment Returns - Plan B
For the Four Years Ended June 30, 2017, 2016, 2015, and 2014**

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Annual money-weighted rate of return, net of investment expense	5.4%	-2.2%	-1.50%	13.00%

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

¹ Includes contributions from employers and non-employer contributing entities as well as funds allocated to the Funding Deposit Account. Does not include funds withdrawn from the Funding Deposit Account.

Municipal Employees' Retirement System of Louisiana
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

A. Schedules of Changes in Net Pension Liability

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

B. Schedules of Employers' Net Pension Liability

The schedule of employers' net pension liability shows the percentage of the System's employers' net pension liability as a percentage of covered employee payroll. The employers' net pension liability is the liability of contributing employers to members for benefits provided through the System. Covered employee payroll is the payroll of all employees that are provided with benefits through the System.

C. Schedules of Contributions-Employer and Non-Employer Contributing Entities

The difference between the actuarially determined contributions for employer and the non-employer contributing entities and the contributions reported from employer and the non-employer contributing entities, and the percentage of contributions reported to cover employee payroll is presented in this schedule. Ad valorem taxes and state revenue sharing are support from non-employer contributing entities.

D. Schedules of Investment Returns

The annual money-weighted rate of return is shown in this schedule. 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 investment performance adjusted for the changing amounts actually invested throughout the year, measured on daily inputs with expenses measured on an accrual basis.

E. 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. Additional information on the assumptions and methods used as of the latest actuarial valuation are disclosed in the Note 3 to the financial statements; Contributions, Funding Status, and Reserves.

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Valuation date	June 30, 2017	June 30, 2016
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.400%	7.500%
Inflation rate	2.775%	2.875%

(Continued)

Municipal Employees Retirement System
Notes to Required Supplementary Information (Continued)
For the Year Ended June 30, 2017

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
(Continued)		
Salary increases including inflation and merit increases	5.000%	5.000%
Annuitant and beneficiary mortality	RP-2000 Healthy Annuitant Sex Distinct Tables set forward two years for males and set forward one year for females projected to 2028 using Scale AA.	RP-2000 Healthy Annuitant Sex Distinct Tables set forward two years for males and set forward one year for females projected to 2028 using Scale AA.
Employee mortality	RP-2000 Employee Sex Distinct Table set back two years for both males and females.	RP-2000 Employee Sex Distinct Table set back two years for both males and females.
Disabled Lives Mortality	RP-2000 Disabled Lives Mortality Table set back five years for males and set back three years for females.	RP-2000 Disabled Lives Mortality Table set back five years for males and set back three years for females.

Other Supplementary Information

Municipal Employees' Retirement System of Louisiana
Supplementary Information
Individual Funds' Statements
of Fiduciary Net Position
June 30, 2017

	<u>Plan "A"</u>	<u>Plan "B"</u>	<u>Total</u>
Assets			
Cash	\$ 27,928,126	\$ 9,465,778	\$ 37,393,904
Receivables			
Member/employer contributions	4,995,400	1,019,407	6,014,807
Interest and dividends	819,259	177,515	996,774
Investment receivable	7,859,987	1,667,270	9,527,257
Miscellaneous receivables	2,279	921	3,200
Due to (from) other funds	4,509,556	(4,509,556)	-
Total receivables	<u>18,186,481</u>	<u>(1,644,443)</u>	<u>16,542,038</u>
Investments, at fair value			
Cash equivalents	4,890,265	5,331,679	10,221,944
Domestic equities	185,579,576	39,365,365	224,944,941
International equities	151,520,769	32,140,769	183,661,538
Fixed income investments	226,802,298	48,109,578	274,911,876
Hedge fund investments	4,377,596	928,581	5,306,177
Real estate investments	36,504,894	7,737,145	44,242,039
Private equity investments	40,324,566	8,553,695	48,878,261
Total investments	<u>649,999,964</u>	<u>142,166,812</u>	<u>792,166,776</u>
Property plant, and equipment (net of depreciation)	<u>1,507,695</u>	<u>571,629</u>	<u>2,079,324</u>
Total assets	<u>697,622,266</u>	<u>150,559,776</u>	<u>848,182,042</u>
Liabilities			
Accounts payable	167,940	10,000	177,940
Refunds payable	308,170	55,240	363,410
Other payables	88,217	26,578	114,795
Total liabilities	<u>564,327</u>	<u>91,818</u>	<u>656,145</u>
Net Position Restricted For Pension Benefits	<u>\$ 697,057,939</u>	<u>\$ 150,467,958</u>	<u>\$ 847,525,897</u>

**Municipal Employees' Retirement System of Louisiana
Supplementary Information
Individual Funds' Statements
of Changes in Fiduciary Net Position
Year Ended June 30, 2017**

	<u>Plan "A"</u>	<u>Plan "B"</u>	<u>Total</u>
Additions			
Contributions			
Members'	\$ 16,351,678	\$ 3,509,496	\$ 19,861,174
Employers'	41,948,824	8,189,914	50,138,738
Ad valorem taxes and revenue sharing	6,155,079	2,489,694	8,644,773
Total contributions	<u>64,455,581</u>	<u>14,189,104</u>	<u>78,644,685</u>
Investment Income			
Interest and dividend income	855,865	214,472	1,070,337
Net appreciation (depreciation) in fair value of investments	32,466,018	6,886,731	39,352,749
	33,321,883	7,101,203	40,423,086
Less investment expenses	(2,070,563)	(439,210)	(2,509,773)
Net investment income (loss)	<u>31,251,320</u>	<u>6,661,993</u>	<u>37,913,313</u>
Other Additions			
Assets transferred from other retirement systems	<u>919,474</u>	<u>276,313</u>	<u>1,195,787</u>
Total additions	<u>96,626,375</u>	<u>21,127,410</u>	<u>117,753,785</u>
Deductions			
Benefits	59,078,325	10,652,086	69,730,411
DROP withdrawals	6,399,404	1,134,878	7,534,282
Refund of contributions	3,455,854	1,008,206	4,464,060
Administrative expenses	922,840	1,054,332	1,977,172
Assets transferred to other retirement systems	1,514,258	85,501	1,599,759
Transfers to/from plans	73,965	(73,965)	-
Total deductions	<u>71,444,646</u>	<u>13,861,038</u>	<u>85,305,684</u>
Net Increase	25,181,729	7,266,372	32,448,101
Net Position Restricted For Pension Benefits			
Beginning of Year	<u>671,876,210</u>	<u>143,201,586</u>	<u>815,077,796</u>
End of Year	<u>\$ 697,057,939</u>	<u>\$ 150,467,958</u>	<u>\$ 847,525,897</u>

**Municipal Employees' Retirement System of Louisiana
Supplementary Information
Schedule of Per Diem to Board Members
Year Ended June 30, 2017**

The per diem paid to the trustees is an administrative expense. For fiscal year ended June 30, 2017, the trustees received per diem at the rate of \$75.00 for each day of a regularly scheduled meeting of the Board of Trustees that they attended. Per diem paid to the trustees for the year ended June 30, 2017 was as follows:

Carroll Breaux	\$ 225
Clarence Fields	750
Raymond Harris	75
Ronnie Harris	300
Paid to the City of Crowley on behalf of Greg Jones	675
Andrea Mahfouz	1,050
Michael Sands	1,275
Donald Villere	825
Paid to Town of Vinton on behalf of Mary Vice	<u>1,050</u>
Total per diem	<u>\$ 6,225</u>

**Municipal Employees' Retirement System of Louisiana
Supplementary Information
Schedules of Administrative Expenses
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Salaries and payroll taxes	\$ 741,466	\$ 699,274
Professional fees	230,928	208,071
Professional/legal fees-special	374,308	139,473
Retirement-employer portion	162,088	123,275
Office equipment maintenance	81,842	97,129
Depreciation	91,715	92,309
Insurance	63,521	60,338
Hospitalization	66,151	54,272
Office supplies	62,337	36,464
Utilities	29,712	26,466
Travel	28,672	24,699
Building and yard maintenance	29,992	23,161
Postage	17,028	15,360
Board member - per diem	6,225	7,200
Education	1,687	2,679
Printing	2,390	1,833
Miscellaneous	(16,146)	1,102
Loss on disposal of assets	3,256	252
	<u>3,256</u>	<u>252</u>
Total administrative expenses	<u>\$ 1,977,172</u>	<u>\$1,613,357</u>

**Municipal Employees' Retirement System of Louisiana
Schedule of Compensation, Benefits and Other
Payments to Agency Head or Chief Executive Officer
Year Ended June 30, 2017**

Agency Head Name: Warren D. Ponder, Executive Director

Purpose	Amount
Salary	\$150,000
Benefits - insurance	6,738
Benefits - retirement	34,125
Car allowance	0
Vehicle provided by agency	0
Per diem	0
Reimbursements	1,624
Travel	2,530
Registration fees	165
Conference travel	1,909
Continuing professional education fees	0
Housing	0
Unvouchered expenses	0
Special meals	0



**Independent Auditor's 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***

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

Members of the Board:

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 statements of Municipal Employees' Retirement System of Louisiana, which comprise the statements of fiduciary net position as of June 30, 2017 and 2016, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Municipal Employees' Retirement System of Louisiana'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 Municipal Employees' Retirement System of Louisiana'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 a 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.

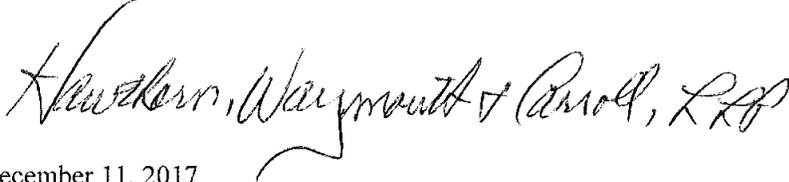
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Municipal Employees' Retirement System of Louisiana's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the Municipal Employees' Retirement System of Louisiana'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 Municipal Employees' Retirement System of Louisiana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Henshorn, Waymouth & Carroll, LLP". The signature is written in black ink and is positioned above the date.

December 11, 2017

**Municipal Employees' Retirement System of Louisiana
Schedule of Current Year Audit Findings
Year Ended June 30, 2017**

Findings - Financial Statement Audit

None.

**Municipal Employees' Retirement System of Louisiana
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017**

Findings - Financial Statement Audit

None.

Municipal Employees' Retirement System of Louisiana

Agreed-Upon Procedures Report

June 30, 2016



**Independent Accountant's Report
on Applying Agreed-upon Procedures**

To the Board of Trustees of Municipal Employees' Retirement System of Louisiana and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by Municipal Employees' Retirement System of Louisiana (Entity) and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2016 through June 30, 2017. The Entity's management is responsible for those control and compliance areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget
 - b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts**, including receiving, recording, and preparing deposits
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process
 - g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage
 - h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
 - i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest

through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.

- j) **Debt Service**, including (1) debt issuance approval, (2) EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Management provided the requested information to us. We found that the entity's written policies and procedures address each of the financial/business functions listed above with the exception of debt service. The entity does not have any debt issuances.

Board (or Finance Committee, if applicable)

- 2. Obtain and review the board/committee minutes for the fiscal period, and:
 - a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

Management provided the requested information to us. We found that the Board of Trustees met in accordance with its planned schedule of meetings.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).
 - If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

We found that the minutes referenced monthly budget-to-actual comparisons. The budget-to-actual comparisons did not indicate that management was deficit spending during the fiscal period.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

We found that the minutes included non-budgetary financial information for at least one meeting during the fiscal period.

Bank Reconciliations

- 3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

Management provided the requested information to us.

- 4. Using the listing provided by management, select a minimum of five of the entity's bank accounts or one-third of the bank accounts on a three year rotating basis if more than 15 accounts. For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:
 - a) Bank reconciliations have been prepared;

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and
- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

We found that bank reconciliations for all months in the fiscal period have been prepared. We found that bank reconciliations for all months in the fiscal period include evidence that a member of management with no involvement in the transactions associated with the bank account has reviewed each bank reconciliation. We found no items outstanding for more than six months as of the end of the fiscal period.

Collections

- 5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Management provided the requested information to us.

- 6. Using the listing provided by management, select a minimum of five of the entity's cash collection locations or one-third of the collection locations on a three year rotating basis if more than 15 locations. For each cash collection location selected:
 - a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

Management provided the requested information to us. We found that individuals responsible for collecting cash are (1) not bonded, (2) not responsible for depositing cash in the bank, recording the related transaction, or reconciling the related bank account, and (3) not required to share the same cash register or drawer with another employee.

- b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

Management provided the requested information to us. We found that the entity has a formal process to reconcile cash collections to the general ledger by a person who is not responsible for cash collections.

- c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:
 - Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

We found that deposits were made within one day of collection.

- Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

We found that daily cash collections are completely supported by documentation.

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

Management provided the requested information to us. We found that the entity has a process specifically defined to determine completeness of all collections, including electronic transfers, for each revenue source by a person who is not responsible for collections.

Disbursements – General (excluding card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

Management provided the requested information to us.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.
 - b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.
 - c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; (2) a receiving report showing receipt of goods purchased, or electronic equivalent; and (3) an approved invoice.

We found that the entity does not use a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system. Of 25 disbursements tested, one disbursement was supported by an invoice that lacked evidence of approval.

10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

We found that the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

We found that persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

We found that the supply of unused checks is maintained in a locked location. We also found that access is restricted to those persons that do not have signatory authority.

13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

We found that a signature stamp exists that is not maintained under the control of the signer; however, it is used only with the knowledge and consent of the signer. We also found that checks signed with the signature stamp are not maintained under the control of the signer or the authorized user of the signature stamp until mailed.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

Management provided the requested information to us.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]

Management provided the requested information to us. We found that the monthly statement was reviewed and approved, in writing, by someone other than the authorized card holder.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

We found that there were no finance charges or late fees assessed on the selected statement.

- 16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:
 - An original itemized receipt (i.e., identifies precisely what was purchased)
 - Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.
 - Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

We found that each transaction is supported by an original itemized receipt. Of four credit card transactions tested, the supporting documentation for three transactions did not contain documentation of the business/public purpose.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

We found no exceptions as a result of the procedures.

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

Of four credit card transactions tested, the supporting documentation for three transactions did not contain documentation of the business/public purpose; therefore, we were unable to perform the procedure above for the three transactions. We found no exceptions as a result of the procedure applied to one of the four credit card transactions tested.

Travel Reimbursement

- 17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

Management provided the requested information to us.

- 18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

Management provided the requested information to us. We found that the entity's authorized rates for travel reimbursement shall not exceed the reimbursable allowance as determined by the Louisiana Travel Guide unless special approval is granted in writing. We also found no amounts that exceed GSA rates when comparing rates identified in the Louisiana Travel Guide to GSA rates.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

We found that each expense was reimbursed or prepaid in accordance with written policy.

b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

We found that each expense is supported by an original itemized receipt, documentation of the business/public purpose, and other documentation required by written policy.

c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

We found no exceptions as a result of the procedures.

d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

We found that each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

Management provided the requested information to us.

21. Using the listing above, select the five contract “vendors” that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

Of the five service arrangements tested, one service arrangement was not supported by a formal/written contract.

b) Compare each contract’s detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
- If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

The entity is not subject to the Louisiana Public Bid Law or Procurement Code. Of the five service arrangements tested, we found that the entity did not solicit quotes for three of the service arrangements pertaining to the following:

- legal services associated with ongoing litigation
- actuarial services
- managed information technology services

c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

Of the four service arrangements that were supported by a formal/written contract, two of the contracts were amended.

We found that one contract was amended during the year ended June 30, 2013 to incorporate a monthly retainer payment in the amount of \$16,667 per month for a term of one year. We also found that the original contract terms contemplated such an amendment.

We found that another contract was amended during the year ended June 30, 2017 to incorporate additional services at an additional cost of \$564 per month. We also found that the original contract terms contemplated such an amendment.

d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

We found that the invoice and related payment complied with the terms and conditions of the contract for the four service arrangements that were supported by a formal/written contract.

e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or Home Rule Charter).

Of the five service arrangements tested, board approval was not documented for three of the service arrangements pertaining to the following:

- legal services associated with ongoing litigation
- insurance services
- managed information technology services

Payroll and Personnel

22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

Management provided the requested information to us. We found that payments were made in strict accordance with the terms and conditions of employment contracts.

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

We found that changes made to salaries during the fiscal period were approved in writing and in accordance with written policy.

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

Management provided the requested information to us. We found that the selected employees documented their daily attendance and leave.

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

We found that there is written documentation that supervisors approved, in writing, the attendance and leave of the selected employees.

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

We found that there is written documentation that the entity maintained written leave records on those selected employees that earn leave.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

Management provided the requested information to us. We found that termination payments were made in strict accordance with policy and contracts and were approved by management.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Management provided the requested information to us. We found that employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

Ethics

26. Using the five randomly selected employees/officials from procedure #22 under "Payroll and Personnel" above, obtain ethics compliance documentation from management and report whether the entity maintained documentation to demonstrate that required ethics training was completed.

Management provided the requested information to us. We found that the entity maintained documentation to demonstrate that required ethics training was completed.

27. Inquire of management whether any alleged ethics violations were reported to the entity during the fiscal period. If applicable, review documentation that demonstrates whether management investigated alleged ethics violations, the corrective actions taken, and whether management's actions complied with the entity's ethics policy. Report whether management received allegations, whether management investigated allegations received, and whether the allegations were addressed in accordance with policy.

Management asserted that no alleged ethics violations were reported to the entity during the fiscal period.

Debt Service

28. If debt was issued during the fiscal period, obtain supporting documentation from the entity, and report whether State Bond Commission approval was obtained.

We found that no debt was issued during the fiscal period; therefore, this procedure was not performed.

29. If the entity had outstanding debt during the fiscal period, obtain supporting documentation from the entity and report whether the entity made scheduled debt service payments and maintained debt reserves, as required by debt covenants.

We found that no debt was outstanding during the fiscal period; therefore, this procedure was not performed.

30. If the entity had tax millages relating to debt service, obtain supporting documentation and report whether millage collections exceed debt service payments by more than 10% during the fiscal period. Also, report any millages that continue to be received for debt that has been paid off.

We found that no tax millages relating to debt service exist; therefore, this procedure was not performed.

Other

31. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Management asserted that the entity is not aware of any misappropriations of public funds or assets.

32. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

We found that the referenced notice was posted on the entity's premises and on its website.

33. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

We neither observed nor identified any exceptions regarding management's representations in the procedures above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those control and compliance areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those control and compliance areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Hawthorn, Wagnon & Powell, LLP
December 11, 2017