

**Municipal Employees' Retirement System of Louisiana  
Baton Rouge, Louisiana  
June 30, 2018**

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Municipal Employees' Retirement System of Louisiana ("System"), which comprise the statements of fiduciary net position as of June 30, 2018 and 2017, 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of June 30, 2018 and 2017, and the changes in 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 System was \$1,148,293,981 and \$1,115,400,101 for Plan A and \$245,867,981 and \$236,991,237 for Plan B, respectively, as of June 30, 2018 and 2017. 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, 2018 and 2017, 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 21, 2018, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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.

*Hawthorn, Weymouth & Carroll, L.L.P.*

December 21, 2018

**Municipal Employees' Retirement System of Louisiana  
Management's Discussion and Analysis  
June 30, 2018**

The following discussion and analysis of Municipal Employees' Retirement System of Louisiana (the System) for the year ended June 30, 2018, 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 2018 by \$895,510,996 which represents an increase from last year. The net position restricted for pension benefits increased by \$47,985,100 or 5.66%. The increase was primarily due to stronger financial markets.

Contributions to the System by members and employers totaled \$75,197,650, an increase of \$5,197,737 or 7.43% from the prior year. Contributions from ad valorem taxes and revenue sharing totaled \$8,748,589, an increase of \$103,815 or 1.20% from the prior year.

Pension benefits paid to retirees and beneficiaries increased by \$3,268,751 or 4.69% 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 \$2,005,578, an increase of \$28,403 or 1.44% from the prior year.

Net investment income of the System totaled \$51,393,546 for fiscal year 2018, compared to \$37,913,315 for fiscal year 2017, an improvement of \$13,480,231.

**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, 2018 and 2017.

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, ad valorem taxes, revenue sharing funds, and earnings on investments fund these benefits.

**Municipal Employees' Retirement System of Louisiana  
Management's Discussion and Analysis  
June 30, 2018**

**Financial Analysis of the System (Continued)**

**Condensed Statements of Fiduciary Net Position**

	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>	<b><u>June 30, 2016</u></b>
Cash	\$ 43,879,303	\$ 37,393,906	\$ 35,475,599
Receivables	13,335,067	16,542,037	63,687,377
Investments	837,074,128	792,166,775	714,331,938
Property and equipment	<u>2,000,133</u>	<u>2,079,324</u>	<u>2,084,924</u>
Total assets	896,288,631	848,182,042	815,579,838
Total liabilities	<u>777,635</u>	<u>656,146</u>	<u>502,042</u>
Net position restricted for pension benefits	<u>\$ 895,510,996</u>	<u>\$ 847,525,896</u>	<u>\$ 815,077,796</u>

The net position restricted for pension benefits increased by \$47,985,100 or 5.66%. The increase was primarily due to stronger financial markets.

**Statements of Changes in Fiduciary Net Position**

For the Years Ended June 30, 2018, 2017, and 2016

	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Additions:			
Contributions			
and ad valorem taxes	\$ 83,946,239	\$ 78,644,687	\$ 70,887,101
Investment income (loss)	51,393,546	37,913,315	(24,756,843)
Other	<u>1,411,562</u>	<u>1,195,787</u>	<u>1,286,454</u>
Total additions	136,751,347	117,753,789	47,416,712
Total deductions	<u>88,766,247</u>	<u>85,305,688</u>	<u>80,592,277</u>
Net increase (decrease)	<u>\$ 47,985,100</u>	<u>\$ 32,448,101</u>	<u>\$ (33,175,565)</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. Employer contributions increased \$5,197,737 or 7.43% primarily due to an increase in salaries and contribution rates. The System experienced net investment gain of \$51,393,546 in 2018 compared to \$37,913,315 in 2017, an increase of \$13,480,231 or 35.56%.

**Municipal Employees' Retirement System of Louisiana  
Management's Discussion and Analysis  
June 30, 2018**

**Financial Analysis of the System (Continued)**

Additions to Fiduciary Net Position (Continued)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<b>2017 to 2018 Percentage Change</b>
Member contributions	\$ 19,934,387	\$ 19,861,175	\$ 19,648,625	0.37%
Employer contributions	55,263,263	50,138,738	42,716,962	10.22%
Ad valorem and state revenue sharing	8,748,589	8,644,774	8,521,514	1.20%
Net investment income (loss)	51,393,546	37,913,315	(24,756,843)	35.56%
Other	<u>1,411,562</u>	<u>1,195,787</u>	<u>1,286,454</u>	18.04%
Total additions	<u>\$ 136,751,347</u>	<u>\$ 117,753,789</u>	<u>\$ 47,416,712</u>	

Deductions from Fiduciary Net Position

Deductions from fiduciary net position include retirement, death, and survivor benefits, DROP withdrawals, administrative expenses and transfers to other systems. Deductions from fiduciary net position totaled \$88,766,247 in fiscal year 2018. The increase in deductions of \$3,460,559 from 2017 is primarily due to an increase in retirement benefits, refunds of contributions, administrative expenses and DROP withdrawals.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<b>2017 to 2018 Percentage Change</b>
Retirement benefits	\$ 79,487,664	\$ 77,264,693	\$ 73,156,872	2.88%
Refunds of contributions	5,625,819	4,464,061	4,715,641	26.02%
Administrative expenses	2,005,578	1,977,175	1,613,357	1.44%
Transfer to other systems	<u>1,647,186</u>	<u>1,599,759</u>	<u>1,106,407</u>	2.96%
Total deductions	<u>\$ 88,766,247</u>	<u>\$ 85,305,688</u>	<u>\$ 80,592,277</u>	

**Municipal Employees' Retirement System of Louisiana  
Management's Discussion and Analysis  
June 30, 2018**

**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, 2018 was \$837,074,128 as compared to \$792,166,775 at June 30, 2017, which is an increase of \$44,907,353. 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 2018, 2017, and 2016 fiscal years are indicated in the following table:

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2017 to 2018 Percentage Change</u>
Cash equivalents	\$ 11,734,788	\$ 10,221,944	\$ 36,735,218	14.80%
Domestic equities	258,635,620	224,944,940	198,531,978	14.98%
International equities	196,339,627	183,661,538	161,920,567	6.90%
Fixed income investments	283,890,373	274,911,877	118,831,629	3.27%
Hedge fund investments	3,528,316	5,306,177	30,185,890	(33.51)%
Real estate investments	35,073,262	44,242,038	88,326,790	(20.72)%
Private debt and equity investments	<u>47,872,142</u>	<u>48,878,261</u>	<u>79,799,866</u>	(2.06)%
Total	<u>\$ 837,074,128</u>	<u>\$ 792,166,775</u>	<u>\$ 714,331,938</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, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
	<hr/>	<hr/>
<b>Assets</b>		
Cash	\$ 43,879,303	\$ 37,393,906
Receivables:		
Member/employer contributions	6,387,688	6,014,807
Interest and dividends	736,503	996,774
Investment receivable	6,193,996	9,527,256
Other receivables	16,880	3,200
	<hr/>	<hr/>
Total receivables	13,335,067	16,542,037
	<hr/>	<hr/>
Investments, at fair value:		
Cash equivalents	11,734,788	10,221,944
Domestic equities	258,635,620	224,944,940
International equities	196,339,627	183,661,538
Fixed income investments	283,890,373	274,911,877
Hedge fund investments	3,528,316	5,306,177
Real estate investments	35,073,262	44,242,038
Private debt and equity investments	47,872,142	48,878,261
	<hr/>	<hr/>
Total investments	837,074,128	792,166,775
	<hr/>	<hr/>
Property, plant, and equipment (net of depreciation)	2,000,133	2,079,324
	<hr/>	<hr/>
Total assets	896,288,631	848,182,042
	<hr/>	<hr/>
<b>Liabilities</b>		
Accounts payable	372,442	177,941
Refunds payable	292,537	363,410
Other payables	112,656	114,795
	<hr/>	<hr/>
Total liabilities	777,635	656,146
	<hr/>	<hr/>
<b>Net Position Restricted for Pension Benefits</b>	<b>\$ 895,510,996</b>	<b>\$ 847,525,896</b>
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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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Additions</b>		
Contributions:		
Members'	\$ 19,934,387	\$ 19,861,175
Employers'	55,263,263	50,138,738
Ad valorem taxes and revenue sharing	8,748,589	8,644,774
Total contributions	<u>83,946,239</u>	<u>78,644,687</u>
Investment income:		
Interest and dividend income	1,322,659	1,070,337
Net appreciation in fair value of investments	53,042,886	39,352,749
Less investment expenses	<u>54,365,545</u> (2,971,999)	<u>40,423,086</u> (2,509,771)
Net investment income	<u>51,393,546</u>	<u>37,913,315</u>
<b>Other Additions</b>		
Assets transferred from other retirement systems	<u>1,411,562</u>	<u>1,195,787</u>
Total additions	<u>136,751,347</u>	<u>117,753,789</u>
<b>Deductions</b>		
Benefits	72,999,162	69,730,411
DROP withdrawals	6,488,502	7,534,282
Refund of contributions	5,625,819	4,464,061
Administrative expenses	2,005,578	1,977,175
Assets transferred to other retirement systems	1,647,186	1,599,759
Total deductions	<u>88,766,247</u>	<u>85,305,688</u>
<b>Net Increase</b>	47,985,100	32,448,101
<b>Net Position Restricted for Pension Benefits</b>		
Beginning of year	<u>847,525,896</u>	<u>815,077,795</u>
End of year	<u><u>\$ 895,510,996</u></u>	<u><u>\$ 847,525,896</u></u>

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

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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, two 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 a retired member of the System; 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 Committee on Retirement; one of whom shall be a member of the House Committee on Retirement appointed by the Speaker of the House; 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, 2018, there were 86 contributing municipalities in Plan A and 69 in Plan B. For the year ended June 30, 2017 there were 84 contributing municipalities in Plan A and 68 in Plan B. At June 30, 2018 and 2017, statewide retirement membership consists of the following:

	<u>2018</u>			<u>2017</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	3,468	1,050	4,536	3,417	1,025	4,442
Inactive plan members entitled to but not yet receiving benefits	3,179	1,511	4,690	3,069	1,413	4,482
Active plan members	<u>4,888</u>	<u>2,128</u>	<u>7,016</u>	<u>4,937</u>	<u>2,125</u>	<u>7,062</u>
Total participants as of the valuation date	<u><u>11,535</u></u>	<u><u>4,689</u></u>	<u><u>16,242</u></u>	<u><u>11,423</u></u>	<u><u>4,563</u></u>	<u><u>15,986</u></u>

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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, 2018**

**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. 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, 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, 2018**

**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, 2018**

**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, 2018**

**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 at 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 are recorded at cost, and depreciated over their estimated useful lives. Depreciation is computed using the straight line method and is allocated between the two Plans based on each Plan's member earnings.

D. 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.

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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, 2018, the employer contribution rate was 24.75% of member's earnings for Plan A and 13.25% 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.

*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.

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

B. Reserves (Continued)

*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, 2018 and 2017 were as follows:

<u>Reserve Funds</u>	<u>2018</u>		<u>2017</u>	
	<u>Plan A</u>	<u>Plan B</u>	<u>Plan A</u>	<u>Plan B</u>
Annuity Savings	\$121,396,858	\$ 27,521,936	\$119,652,205	\$ 27,368,051
Pension Accumulation Reserve (Deficit)	(29,241,968)	21,632,843	(34,085,184)	15,747,125
Annuity Reserve	603,959,851	103,390,418	574,510,474	97,236,980
Deferred Retirement Option Account	29,398,729	7,216,582	28,868,037	6,829,072
Funding Deposit Account	<u>8,712,724</u>	<u>1,523,023</u>	<u>8,112,406</u>	<u>3,286,730</u>
	<u>\$734,226,194</u>	<u>\$161,284,802</u>	<u>\$697,057,938</u>	<u>\$150,467,958</u>

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, 2018 and 2017 are as follows:

	<u>Plan A</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Total pension liability	\$ 1,148,293,981	\$1,115,400,101
Plan fiduciary net position	734,226,194	697,057,938
Employer's net pension liability	<u>\$ 414,067,787</u>	<u>\$ 418,342,163</u>
Plan fiduciary net position as a % of the total pension liability	63.94%	62.49%

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

C. Funding Status (Continued)

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, 2018 and 2017 are as follows:

	<b><u>Plan B</u></b>	
	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>
Total pension liability	\$ 245,867,981	\$ 236,991,237
Plan fiduciary net position	161,284,802	150,467,958
Employer's net pension liability	<u>\$ 84,583,179</u>	<u>\$ 86,523,279</u>
Plan fiduciary net position as a % of the total pension liability	65.60%	63.49%

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

The actuarial assumptions used in the June 30, 2018 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, 2018 is based on actuarial valuations for the same period, updated using generally accepted actuarial principles.

Information on the actuarial valuation and assumptions is as follows:

	<b><u>June 30, 2018</u></b>	<b><u>June 30, 2017</u></b>
Valuation date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
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	7.275%	7.400%
Inflation rate	2.600%	2.775%
Salary increases, including inflation and merit increases	5.000%	5.000%

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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, 2018</u>	<u>June 30, 2017</u>
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.

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, 2018 and 2017 are summarized in the following table:

<u>Asset Class</u>	<u>2018</u>		<u>2017</u>	
	<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%	2.2%	50%	2.3%
Public fixed income	35%	1.5%	35%	1.6%
Alternatives	<u>15%</u>	<u>0.6%</u>	<u>15%</u>	<u>0.7%</u>
Totals	<u>100%</u>	<u>4.3%</u>	<u>100%</u>	<u>4.6%</u>
Inflation		2.7%		2.6%
Expected Arithmetic Nominal Return		7.0%		7.2%

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

C. Funding Status (Continued)

The discount rate used to measure the total pension liability was 7.275% for the year ended June 30, 2018. 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, 2018 using the discount rate of 7.275%, 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 (6.275%) or one percentage point higher (8.275%) than the current rate.

	<b>Changes in Discount Rate</b>		
	<b>1% Decrease (6.275%)</b>	<b>Current Discount Rate (7.275%)</b>	<b>1% Increase (8.275%)</b>
2018 Employer Net Pension Liability – Plan A	\$ 531,907,815	\$ 414,067,787	\$313,487,159
2018 Employer Net Pension Liability – Plan B	\$ 111,005,069	\$ 84,583,179	\$ 62,122,255
	<b>1% Decrease (6.400%)</b>	<b>Current Discount Rate (7.400%)</b>	<b>1% Increase (8.400%)</b>
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	\$ 86,523,279	\$ 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, 2018 and 2017:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Cash	\$ 43,879,303	\$ 37,393,906
Cash equivalents	11,734,788	10,221,944
Investments	<u>825,339,340</u>	<u>781,944,831</u>
Total	<u>\$ 880,953,431</u>	<u>\$ 829,560,681</u>

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

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, 2018 and 2017, cash equivalents in the amount of \$11,734,788 and \$10,221,944, 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, 2018 and 2017, 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.

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.

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

D. Fair Value Measurements (Continued)

The following table sets forth by levels, the investments reported at fair value as of June 30, 2018:

<b>Investments by Fair Value Level</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Debt Securities</b>				
U.S. Government and agency obligations	\$ 22	\$ -	\$ 22	\$ -
Corporate bonds	81,977	-	-	81,977
Mutual funds	283,808,374	-	283,808,374	-
Total debt securities	<u>283,890,373</u>	<u>-</u>	<u>283,808,396</u>	<u>81,977</u>
<b>Equity Securities</b>				
Domestic stock	54,927,346	54,927,346	-	-
Domestic equity	203,708,274	-	203,708,274	-
Foreign equity	196,339,627	-	196,339,627	-
Total equity securities	<u>454,975,247</u>	<u>54,927,346</u>	<u>400,047,901</u>	<u>-</u>
Cash equivalents	<u>11,734,788</u>	<u>-</u>	<u>11,734,788</u>	<u>-</u>
Total investments at Fair Value Level	<u>750,600,408</u>	<u>\$ 54,927,346</u>	<u>\$ 695,591,085</u>	<u>\$ 81,977</u>
<b>Investments measured at Net Asset Value (NAV)</b>				
Hedge funds	3,528,316			
Private debt	45,405,314			
Private equity	2,466,828			
Real estate	35,073,262			
Total investments at NAV	<u>86,473,720</u>			
<b>Total Investments at Fair Value</b>	<u>\$ 837,074,128</u>			

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

D. Fair Value Measurements (Continued)

The unfunded commitments and redemption terms, if applicable, for investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2018, are presented in the following table:

<u>Investment Type</u>	<u>Fair Value</u> <u>2018</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Hedge funds:				
Golden Tree Offshore Fund, LTD	\$ 3,528,316	\$ -	N/A	N/A
Private debt:				
Republic Business Credit	16,443,780	-	N/A	N/A
Blue Bay Direct Lending Fund II	<u>28,961,534</u>	<u>11,672,372</u>	N/A	N/A
Total private debt	<u>45,405,314</u>	<u>11,672,372</u>		
Private equity:				
Franchise Equity II	290,932	-	N/A	N/A
Louisiana Fund II	<u>2,175,896</u>	<u>500,000</u>	N/A	N/A
Total private equity	<u>2,466,828</u>	<u>500,000</u>		
Real estate:				
Sentinel Real Estate Fund, LP	15,697,443	-	Quarterly	30 Days
Gainesville Vision, LLC	8,898,019	-	N/A	N/A
Resource Environmental Solutions	<u>10,477,800</u>	<u>-</u>	N/A	N/A
Total real estate	<u>35,073,262</u>	<u>-</u>		
<b>Total Investments at NAV</b>	<u>\$ 86,473,720</u>			

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

D. Fair Value Measurements (Continued)

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

<b>Investments by Fair Value Level</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Debt Securities</b>				
U.S. Government and agency Obligations	\$ 145,611	\$ -	\$ 145,611	\$ -
Corporate bonds	3,507,715	-	-	3,507,715
Mutual funds	271,258,551	-	271,258,551	-
Total debt securities	<u>274,911,877</u>	<u>-</u>	<u>271,404,162</u>	<u>3,507,715</u>
<b>Equity Securities</b>				
Domestic stock	46,335,052	46,335,052	-	-
Domestic equity	178,609,888	-	178,609,888	-
Foreign equity	183,661,538	-	183,661,538	-
Total equity securities	<u>408,606,478</u>	<u>46,335,052</u>	<u>362,271,426</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>
<b>Investments measured at Net Asset Value (NAV)</b>				
Hedge funds	5,306,177			
Private debt	35,045,151			
Private equity	13,833,110			
Real estate	44,242,038			
Total investments at NAV	<u>98,426,476</u>			
<b>Total Investments at Fair Value</b>	<u>\$792,166,775</u>			

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

**D. Fair Value Measurements (Continued)**

The unfunded commitments and redemption terms, if applicable, for investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2017, are presented in the following table:

<u>Investment Type</u>	<u>Fair Value</u> <u>2017</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Hedge funds:				
Golden Tree Offshore Fund, LTD	\$ 5,306,177	\$ -	N/A	N/A
Private debt:				
Republic Business Credit	16,257,517	9,000,000	N/A	N/A
Blue Bay Direct Lending Fund II	<u>18,787,634</u>	<u>19,938,622</u>	N/A	N/A
Total private debt	<u>35,045,151</u>	<u>28,938,622</u>		
Private equity:				
Compass Island	2,243,231	-	N/A	N/A
Greenspring Crossover	925,967	-		
Capital Spring LLC	774,283	-		
Franchise Equity II	299,831	-		
Capital Spring Finance Company	7,797,085	-		
Louisiana Fund I	247,101	-		
Louisiana Fund II	<u>1,545,612</u>	<u>800,000</u>	N/A	N/A
Total private equity	<u>13,833,110</u>	<u>800,000</u>		
Real estate:				
Americus II	82,050	-	N/A	N/A
Sentinel Real Estate Fund, LP	15,295,944	-	Quarterly	30 Days
Gainesville Vision, LLC	2,908,800	-	N/A	N/A
Bedico Creek Preserve, LLC	7,930,238	-	N/A	N/A
Timbervest	5,856,560	-	N/A	N/A
Resource Environmental Solutions	<u>12,168,446</u>	<u>-</u>	N/A	N/A
Total real estate	<u>44,242,038</u>	<u>-</u>		
<b>Total Investments at NAV</b>	<u>\$ 98,426,476</u>			

**E. Valuation Techniques**

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

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

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

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

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 also 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, 2018**

**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. As of June 30, 2018, the System's asset allocation is within the allowable ranges.

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, 2018 and 2017.

	<b>2018</b>					
	<b>Federal Home Loan Mortgage Corporation</b>	<b>Federal National Mortgage Association</b>	<b>Government National Mortgage Association</b>	<b>Corporate Bonds</b>	<b>Asset Backed Securities</b>	<b>Total Bonds</b>
AA+	\$ -	\$ 17	\$ 5	\$ -	\$ -	\$ 22
Not Rated	-	-	-	81,977	-	81,977
	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 5</u>	<u>\$ 81,977</u>	<u>\$ -</u>	<u>\$ 81,999</u>
	<b>2017</b>					
AA+	\$ 3,792	\$ 110,215	\$ 31,592	\$ -	\$ -	\$ 145,599
Aaa	-	-	-	-	12	12
Not Rated	-	-	-	3,507,715	-	3,507,715
	<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>

The System has no formal investment policy regarding credit risk.

At June 30, 2018, the System was invested in four fixed income mutual funds in the amount of \$283,808,374. The weighted average credit rating of holdings in the funds are as follows: Brandywine Global Opportunistic Fixed Income Fund in the amount of \$35,712,014, 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 \$38,653,092, 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 \$146,664,189, has a credit rating ranging from AAA to BBB; and Northern Trust Treasury Inflation-Protected Securities (TIPS) Index Fund in the amount of \$62,779,079 has a credit rating of AAA.

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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, 2018, 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, 2018 and 2017, the System had the following investments in long-term debt securities and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<b>2018</b>			
		<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	\$ 81,977	\$ –	\$ –	\$ –	\$ 81,977
Federal National Mortgage Association	17	–	16	–	1
Government National Mortgage Association	5	–	–	5	–
	<u>\$ 81,999</u>	<u>\$ –</u>	<u>\$ 16</u>	<u>\$ 5</u>	<u>\$ 81,978</u>

<u>Investment Type</u>	<u>Fair Value</u>	<b>2017</b>			
		<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>

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

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**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. Money-Weighted Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.0% for Plan A and 7.7% for Plan B. 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. 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, 2018, are as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Ending Balance</u></b>
Land	\$ 389,547	\$ -	\$ -	\$ 389,547
Building	2,133,921	-	-	2,133,921
Furnishings and equipment	387,653	20,835	(9,000)	399,488
Accumulated depreciation	<u>(831,797)</u>	<u>(99,696)</u>	<u>8,670</u>	<u>(922,823)</u>
	<u>\$ 2,079,324</u>	<u>\$ (78,861)</u>	<u>\$ (330)</u>	<u>\$ 2,000,133</u>

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

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b><u>Ending Balance</u></b>
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>

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, 2018 and 2017 was \$99,696 and \$91,715, 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).

**Municipal Employees' Retirement System of Louisiana**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 7-Vacation and Sick Leave**

Employees of the System accumulate unlimited amounts of vacation and sick leave. For the year ended June 30, 2018, upon resignation or retirement, unused vacation leave up to 300 hours is payable to employees 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, 2018 and 2017 was \$84,603 and \$78,644, respectively, which is included in "other payables" on the statements of fiduciary net position.

**Note 8-Subsequent Events**

The System evaluated all subsequent events through December 31, 2018, 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 Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability:</b>					
Service cost	\$ 25,281,175	\$ 24,275,565	\$ 23,781,922	\$ 23,096,097	\$ 23,140,535
Interest	81,802,697	80,406,612	78,661,214	75,893,993	74,566,028
Differences between expected and actual experience	(15,881,370)	(12,403,109)	(13,416,767)	(12,035,176)	(20,239,083)
Changes of assumptions	13,450,805	10,492,664	-	44,760,830	-
Benefit payments	(67,316,775)	(65,477,729)	(62,293,294)	(58,350,147)	(55,232,429)
Refunds of member contributions	(4,508,706)	(3,455,854)	(3,691,857)	(3,607,850)	(3,894,171)
Other	66,054	(185,316)	2,506,020	(274,719)	712,070
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in total pension liability	32,893,880	33,652,833	25,547,238	69,483,028	19,052,950
<b>Total pension liability - beginning</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,115,400,101	1,081,747,268	1,056,200,030	986,717,002	967,664,052
<b>Total pension liability - ending (a)</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 1,148,293,981	\$ 1,115,400,101	\$ 1,081,747,268	\$ 1,056,200,030	\$ 986,717,002
<b>Plan Fiduciary Net Position:</b>					
Contributions - member	\$ 16,406,019	\$ 16,336,439	\$ 16,147,447	\$ 15,293,103	\$ 14,768,535
Contributions - employer	45,386,253	41,480,630	35,737,280	34,062,068	31,501,412
Contributions - nonemployer contributing entities	6,237,749	6,155,079	6,059,222	5,937,609	5,741,515
Net investment income (loss)	42,327,639	31,251,320	(20,424,673)	(22,780,531)	80,430,073
Benefit payments	(67,316,775)	(65,477,730)	(62,293,294)	(58,350,147)	(55,232,429)
Refunds of member contributions	(4,508,706)	(3,455,854)	(3,691,857)	(3,607,850)	(3,894,171)
Administrative expenses	(1,429,978)	(922,840)	(1,148,300)	(1,367,711)	(1,677,654)
Other	66,054	(185,316)	2,506,020	(274,719)	712,070
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in plan fiduciary net position	37,168,255	25,181,728	(27,108,155)	(31,088,178)	72,349,351
<b>Total fiduciary net position - beginning</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	697,057,939	671,876,210	698,984,365	730,072,543	657,723,192
<b>Total fiduciary net position - ending (b)</b>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 734,226,194	\$ 697,057,938	\$ 671,876,210	\$ 698,984,365	\$ 730,072,543
<b>Net pension liability (asset) - ending (a) - (b)</b>	414,067,787	418,342,163	409,871,058	357,215,665	256,644,459
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	63.94%	62.49%	62.11%	66.18%	73.99%
<b>Covered payroll</b>	\$ 183,378,800	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
<b>Net pension liability (asset) as a percentage of covered payroll</b>	225.80%	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 Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability:</b>					
Service cost	\$ 6,249,751	\$ 6,045,761	\$ 5,950,157	\$ 5,703,335	\$ 5,558,785
Interest	17,505,988	16,949,121	16,215,425	15,681,899	15,153,572
Differences between expected and actual experience	(4,292,673)	(1,895,698)	906,476	(1,826,199)	(1,138,351)
Changes of assumptions	3,003,359	2,325,900	-	8,261,069	-
Benefit payments	(12,170,889)	(11,786,964)	(10,863,578)	(13,185,825)	(9,846,376)
Refunds of member contributions	(1,117,113)	(1,008,206)	(1,023,784)	(1,113,933)	(864,399)
Other	(301,679)	268,893	(2,325,973)	104,328	(944,055)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in total pension liability	8,876,744	10,898,807	8,858,723	13,624,674	7,919,176
<b>Total pension liability - beginning</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	236,991,237	226,092,430	217,233,707	203,609,033	195,689,857
<b>Total pension liability - ending (a)</b>	<hr/> <hr/>				
	\$ 245,867,981	\$ 236,991,237	\$ 226,092,430	\$ 217,233,707	\$ 203,609,033
<b>Plan Fiduciary Net Position:</b>					
Contributions - member	\$ 3,528,368	\$ 3,507,946	\$ 3,501,178	\$ 3,296,735	\$ 3,223,747
Contributions - employer	9,877,010	8,187,348	6,979,682	6,589,957	5,950,944
Contributions - nonemployer contributing entities	2,510,840	2,489,694	2,462,292	2,403,252	2,260,931
Net investment income (loss)	9,065,907	6,661,993	(4,332,169)	(4,932,969)	16,488,707
Benefit payments	(12,170,889)	(11,786,964)	(10,863,578)	(13,185,825)	(9,846,376)
Refunds of member contributions	(1,117,113)	(1,008,206)	(1,023,784)	(1,113,933)	(864,399)
Administrative expenses	(575,600)	(1,054,332)	(465,057)	(551,946)	(354,166)
Other	(301,679)	268,893	(2,325,973)	104,328	(944,055)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in plan fiduciary net position	10,816,844	7,266,372	(6,067,409)	(7,390,401)	15,915,333
<b>Total fiduciary net position - beginning</b>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	150,467,958	143,201,586	149,268,995	156,659,396	140,744,063
<b>Total fiduciary net position - ending (b)</b>	<hr/> <hr/>				
	\$ 161,284,802	\$ 150,467,958	\$ 143,201,586	\$ 149,268,995	\$ 156,659,396
<b>Net pension liability (asset) - ending (a) - (b)</b>	84,583,179	86,523,279	82,890,844	67,964,712	46,949,637
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	65.60%	63.49%	63.34%	68.71%	76.94%
<b>Covered payroll</b>	\$ 74,543,472	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
<b>Net pension liability (asset) as a percentage of covered payroll</b>	113.47%	116.25%	112.82%	97.98%	69.03%

**Municipal Employees' Retirement System of Louisiana  
Schedules of Employers' Net Pension Liability - Plan A  
For the Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Total pension liability	\$ 1,148,293,981	\$ 1,115,400,101	\$ 1,081,747,268	\$ 1,056,200,030	\$ 986,717,002
Plan fiduciary net position	734,226,194	697,057,938	671,876,210	698,984,365	730,072,543
Net pension liability (asset)	<u>\$ 414,067,787</u>	<u>\$ 418,342,163</u>	<u>\$ 409,871,058</u>	<u>\$ 357,215,665</u>	<u>\$ 256,644,459</u>
Plan fiduciary net percentage as a percentage of the total pension liability	63.94%	62.49%	62.11%	66.18%	73.99%
Covered payroll	\$ 183,378,800	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
Net pension liability (asset) as a percentage of covered payroll	225.80%	229.44%	226.51%	207.12%	152.76%

**Schedules of Contributions  
Employer and Non-Employer Contributing Entities - Plan A  
For the Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Actuarially determined contribution (determined as of the prior fiscal year)	\$ 51,683,094	\$ 48,556,690	\$ 41,221,565	\$ 41,843,813	\$ 37,302,561
Contributions in relation to the actuarially determined contribution	51,624,002	47,635,709	41,796,502	39,999,677	37,242,927
Contribution deficiency (excess)	<u>\$ 59,092</u>	<u>\$ 920,981</u>	<u>\$ (574,937)</u>	<u>\$ 1,844,136</u>	<u>\$ 59,634</u>
Covered payroll	\$ 183,378,800	\$ 182,332,440	\$ 180,948,253	\$ 172,466,167	\$ 168,007,531
Contributions as a percentage of covered payroll	28.15%	26.13%	23.10%	23.19%	22.17%

**Schedules of Investment Returns - Plan A  
For the Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Annual money-weighted rate of return, net of investment expense	4.0%	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.

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 Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Total pension liability	\$ 245,867,981	\$ 236,991,237	\$ 226,092,430	\$ 217,233,707	\$ 203,609,033
Plan fiduciary net position	161,284,802	150,467,958	143,201,586	149,268,995	156,659,396
Net pension liability (asset)	<u>\$ 84,583,179</u>	<u>\$ 86,523,279</u>	<u>\$ 82,890,844</u>	<u>\$ 67,964,712</u>	<u>\$ 46,949,637</u>
Plan fiduciary net percentage as a percentage of the total pension liability	65.60%	63.49%	63.34%	68.71%	76.94%
Covered payroll	\$ 74,543,472	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
Net pension liability (asset) as a percentage of covered payroll	113.47%	116.25%	112.82%	97.98%	69.03%

**Schedules of Contributions  
Employer and Non-Employer Contributing Entities - Plan B  
For the Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Actuarially determined contribution (determined as of the prior fiscal year)	\$ 12,411,566	\$ 10,867,196	\$ 9,593,456	\$ 9,309,715	\$ 8,235,689
Contributions in relation to the actuarially determined contribution	12,387,850	10,677,042	9,441,974	8,993,209	8,211,875
Contribution deficiency (excess)	<u>\$ 23,716</u>	<u>\$ 190,154</u>	<u>\$ 151,482</u>	<u>\$ 316,506</u>	<u>\$ 23,814</u>
Covered payroll	\$ 74,543,472	\$ 74,430,436	\$ 73,470,337	\$ 69,367,968	\$ 68,010,789
Contributions as a percentage of covered payroll	16.62%	14.34%	12.85%	12.96%	12.07%

**Schedules of Investment Returns - Plan B  
For the Five Years Ended June 30, 2018, 2017, 2016, 2015, and 2014**

	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>	<u>2014*</u>
Annual money-weighted rate of return, net of investment expense	7.7%	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.

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**  
**June 30, 2018**

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, 2018</u>	<u>June 30, 2017</u>
Valuation date	June 30, 2018	June 30, 2017
Actuarial cost method	Entry age normal	Entry age normal
Actuarial assumptions:		
Investment rate of return	7.275%	7.400%
Inflation rate	2.600%	2.775%

(Continued)

**Municipal Employees' Retirement System of Louisiana  
Notes to Required Supplementary Information  
June 30, 2018**

E. Actuarial Assumptions (Continued)

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
(Continued)		
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 two years for males and set forward one year for females projected to 2028 using Scale AA.	RP-2000 Healthy Annuitant Sex Distinct Mortality 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, 2018**

	<u>Plan "A"</u>	<u>Plan "B"</u>	<u>Total</u>
<b>Assets</b>			
Cash	\$ 32,213,872	\$ 11,665,431	\$ 43,879,303
Receivables:			
Member/employer contributions	5,152,195	1,235,493	6,387,688
Interest and dividends	600,751	135,752	736,503
Investment receivable	5,110,046	1,083,950	6,193,996
Other receivables	12,037	4,843	16,880
Due to (from) other funds	4,747,480	(4,747,480)	-
Total receivables	<u>15,622,509</u>	<u>(2,287,442)</u>	<u>13,335,067</u>
Investments, at fair value:			
Cash equivalents	4,684,669	7,050,119	11,734,788
Domestic equities	213,374,386	45,261,234	258,635,620
International equities	161,980,191	34,359,436	196,339,627
Fixed income investments	234,209,558	49,680,815	283,890,373
Hedge fund investments	2,910,861	617,455	3,528,316
Real estate investments	28,940,657	6,132,605	35,073,262
Private debt and equity investments	39,491,708	8,380,434	47,872,142
Total investments	<u>685,592,030</u>	<u>151,482,098</u>	<u>837,074,128</u>
Property, plant, and equipment (net of depreciation)	<u>1,451,231</u>	<u>548,902</u>	<u>2,000,133</u>
Total assets	<u>734,879,642</u>	<u>161,408,989</u>	<u>896,288,631</u>
<b>Liabilities</b>			
Accounts payable	331,719	40,723	372,442
Refunds payable	245,155	47,382	292,537
Other payables	76,574	36,082	112,656
Total liabilities	<u>653,448</u>	<u>124,187</u>	<u>777,635</u>
<b>Net Position Restricted for Pension Benefits</b>	<u>\$ 734,226,194</u>	<u>\$ 161,284,802</u>	<u>\$ 895,510,996</u>

**Municipal Employees' Retirement System of Louisiana**  
**Supplementary Information**  
**Individual Funds' Statements of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2018**

	<u>Plan "A"</u>	<u>Plan "B"</u>	<u>Total</u>
<b>Additions</b>			
Contributions:			
Members'	\$ 16,406,019	\$ 3,528,368	\$ 19,934,387
Employers'	45,386,253	9,877,010	55,263,263
Ad valorem taxes and revenue sharing	6,237,749	2,510,840	8,748,589
	<u>68,030,021</u>	<u>15,916,218</u>	<u>83,946,239</u>
Investment income:			
Interest and dividend income	1,019,179	303,480	1,322,659
Net appreciation in fair value of investments	43,760,382	9,282,504	53,042,886
	<u>44,779,561</u>	<u>9,585,984</u>	<u>54,365,545</u>
Less investment expenses	(2,451,922)	(520,077)	(2,971,999)
	<u>42,327,639</u>	<u>9,065,907</u>	<u>51,393,546</u>
<b>Other Additions</b>			
Assets transferred from other retirement systems	1,342,120	69,442	1,411,562
	<u>1,342,120</u>	<u>69,442</u>	<u>1,411,562</u>
Total additions	<u>111,699,780</u>	<u>25,051,567</u>	<u>136,751,347</u>
<b>Deductions</b>			
Benefits	61,750,998	11,248,164	72,999,162
DROP withdrawals	5,565,777	922,725	6,488,502
Refund of contributions	4,508,706	1,117,113	5,625,819
Administrative expenses	1,429,978	575,600	2,005,578
Assets transferred to other retirement systems	1,276,063	371,123	1,647,186
	<u>74,531,522</u>	<u>14,234,725</u>	<u>88,766,247</u>
Total deductions	<u>74,531,522</u>	<u>14,234,725</u>	<u>88,766,247</u>
<b>Net Increase</b>	37,168,258	10,816,842	47,985,100
<b>Net Position Restricted for Pension Benefits</b>			
Beginning of year	<u>697,057,936</u>	<u>150,467,960</u>	<u>847,525,896</u>
End of year	<u>\$ 734,226,194</u>	<u>\$ 161,284,802</u>	<u>\$ 895,510,996</u>

**Municipal Employees' Retirement System of Louisiana  
 Supplementary Information  
 Schedule of Per Diem to Board Members  
 Year Ended June 30, 2018**

The per diem paid to the trustees is an administrative expense. For fiscal year ended June 30, 2018, 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, 2018 was as follows:

Raymond Harris	\$	750
Paid to the City of Crowley on behalf of Greg Jones		375
Andrea Mahfouz		750
Susan Percle		600
Michael Sands		825
Donald Villere		750
Paid to Town of Vinton on behalf of Mary Vice		600
Mary Vice		75
		750
Total per diem	\$	4,725

**Municipal Employees' Retirement System of Louisiana**  
**Supplementary Information**  
**Schedules of Administrative Expenses**  
**Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Salaries and payroll taxes	\$ 764,018	\$ 741,467
Professional fees	244,496	230,928
Professional/legal fees-special	307,906	374,309
Retirement-employer portion	184,893	162,088
Office equipment maintenance	103,834	81,843
Depreciation	99,696	91,715
Insurance	63,871	63,521
Hospitalization	76,949	66,151
Office supplies	35,936	62,336
Utilities	25,697	29,712
Travel	28,260	28,672
Building and yard maintenance	26,852	29,992
Postage	34,372	17,029
Board member-per diem	4,725	6,225
Education	4,822	1,687
Printing	-	2,390
Miscellaneous	(1,081)	(16,146)
Loss on disposal of assets	332	3,256
	\$ 2,005,578	\$ 1,977,175
Total administrative expenses	\$ 2,005,578	\$ 1,977,175

**Municipal Employees' Retirement System of Louisiana  
Schedule of Compensation, Benefits, and Other  
Payments to Agency Head or Chief Executive Officer  
Year Ended June 30, 2018**

**Agency Head Name: Warren Ponder, Executive Director**

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 150,000
Benefits - insurance	9,389
Benefits - retirement	37,125
Car allowance	0
Vehicle provided by agency	0
Per diem	0
Reimbursements	2,523
Travel	3,547
Registration fees	1,120
Conference travel	1,506
Continuing professional education fees	1,050
Housing	0
Unvouchered expenses	0
Special meals	0



**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

Louis C. McKnight, III, CPA  
Charles R. Pevey, Jr., CPA  
David J. Broussard, CPA  
Neal D. King, CPA  
Brittany B. Thames, CPA

**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, 2018 and 2017, 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 21, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audits 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 Municipal Employees' Retirement System of Louisiana'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, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Hawthorn, Waymouth & Carroll, LLP.*

December 21, 2018

**Municipal Employees' Retirement System of Louisiana**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2018**

**Part I - Summary of Audit Results**

- 1) An unmodified opinion has been expressed on the financial statements of Municipal Employees' Retirement System of Louisiana as of and for the year ended June 30, 2018, and the related notes to the financial statements.
- 2) No deficiencies in internal control over financial reporting that we consider to be material weaknesses were identified.
- 3) No instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* were identified.
- 4) A single audit in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* was not required.
- 5) A management letter was not issued.

**Part II - Financial Statement Findings**

No findings were noted.

**Municipal Employees' Retirement System of Louisiana  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2018**

**Part I – Financial Statement Findings**

No findings were noted.

**Part II – Management Letter**

A management letter was not issued for the year ended June 30, 2017.

**Municipal Employees' Retirement System of Louisiana**

**Agreed-Upon Procedures Report**

**June 30, 2018**



**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, 2017 through June 30, 2018. 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:

***Collections***

---

1. Obtained a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Selected the Entity's only deposit site.

*No exceptions noted.*

2. For the deposit site selected, obtained a listing of collection locations and management's representation that the listing is complete. Selected the Entity's only collection location for the Entity's only deposit site, obtained and inspected written policies and procedures relating to employee job duties at the selected collection location, and observed that job duties are properly segregated at the selected collection location such that:

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

*No exceptions noted.*

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

*No exceptions noted.*

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

*No exceptions noted.*

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

*No exceptions noted.*

- 3. Inquired of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

*Management asserted that employees who have access to cash were not covered by a bond or insurance policy for theft until July 1, 2018.*

- 4. Randomly selected two deposit dates for each of the Entity's 5 bank accounts (selected the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly selected a deposit if multiple deposits were made on the same day). Obtained supporting documentation for each of the 10 deposits and:

- a) Observed that receipts are sequentially pre-numbered.

*No exceptions noted.*

- b) Traced sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

*No exceptions noted.*

- c) Traced the deposit slip total to the actual deposit per the bank statement.

*No exceptions noted.*

- d) Observed that the deposit was made within one business day of receipt at the collection location.

*No exceptions noted.*

- e) Traced the actual deposit per the bank statement to the general ledger.

*No exceptions noted.*

***Non-Payroll Disbursements – (excluding card purchases/payments, travel reimbursements, and petty cash purchases)***

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- 5. Obtained a listing of locations that processed payments for the fiscal period and management's representation that the listing is complete. Selected the Entity's only location that processes payments.

*No exceptions noted.*

6. For each location selected under # 5 above, obtained a listing of those employees involved with non-payroll purchasing and payment functions. Obtained written policies and procedures relating to employee job duties and observed that job duties are properly segregated such that:

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

*We noted no requirement for there to be at least two employees involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.*

- b) At least two employees are involved in processing and approving payments to vendors.

*No exceptions noted.*

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

*No exceptions noted.*

- d) Either the employee/official responsible for signing checks mails the payments or gives the signed checks to an employee to mail who is not responsible for processing payments.

*The employee responsible for signing checks gives the signed checks to the individual who is responsible for processing payments.*

7. For each location selected under # 5 above, obtained the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtained management's representation that the population is complete. Randomly selected 5 disbursements for the selected location, obtained supporting documentation for each transaction and:

- a) Observed that the disbursement matched the related original invoice/billing statement.

*No exceptions noted.*

- b) Observed that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under # 6, as applicable.

*No exceptions noted related to procedures # 6b and 6c.*

### ***Contracts***

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8. Obtained from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. Obtained management's representation that the listing is complete. Randomly selected 5 contracts from the listing, excluding the practitioner's contract, and:

- a) Observed that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

*No exceptions noted.*

- b) Observed that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

*No exceptions noted.*

- c) If the contract was amended (c.g. change order), observed that the original contract terms provided for such an amendment.

*No exceptions noted.*

- d) Randomly selected one payment from the fiscal period for each of the 5 contracts, obtained the supporting invoice, agreed the invoice to the contract terms, and observed that the invoice and related payment agreed to the terms and conditions of the contract.

*No exceptions noted.*

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, Waymouth & Carroll, L.L.P.*

August 30, 2018



September 14, 2018

Mr. Daryl G. Purpera, CPA, CFE  
Louisiana Legislative Auditor  
1600 North Third Street  
Baton Rouge, LA 70802

In connection with our engagement of Hawthorn, Waymouth & Carroll, L.L.P. to apply agreed-upon procedures to certain control and compliance areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures (SAUPs), Municipal Employees' Retirement System of Louisiana (MERS) has prepared a corrective action plan for each of the exceptions noted in the Agreed-upon Procedures Report.

The associated exceptions and corrective action plan are as follows:

1. *Management asserted that employees who have access to cash were not covered by a bond or insurance policy for theft until July 1, 2018.*

MERS received the Proposal for Commercial Crime Coverage/Employee Theft on July 21, 2018 from Daul Insurance Agency, Inc. The policy coverage is provided by Travelers Casualty and Surety Company of America for the period of July 1, 2018 through July 1, 2021.

2. *There was no requirement for there to be at least two employees involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.*

MERS has implemented process that requires a purchase request form to be approved by the Executive Director or Chief Financial Officer prior to placing an order/making a purchase.

3. *The employee responsible for signing checks gives the signed checks to the individual who is responsible for processing payments.*

The employee responsible for signing checks will give the signed checks to an individual not responsible for processing payments.

MERS intention is to comply and implement best practices as is deemed reasonable and realistic for our retirement system. Please contact me if you have any questions or concerns.

Sincerely,



Warren D. Ponder  
Executive Director