

**LOUISIANA PUBLIC EMPLOYEES
DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORT**

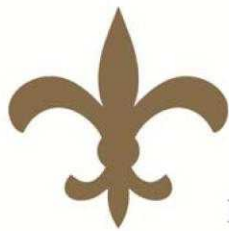
DECEMBER 31, 2018

**LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA**

INDEX TO REPORT

DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 4
FINANCIAL STATEMENTS:	
Statement of Net Position Available for Benefits	5
Statement of Changes in Net Position Available for Benefits	6
Notes to Financial Statements	7 – 16
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 <i>GOVERNMENT AUDITING STANDARDS</i>	17 – 18
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	19



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INDEPENDENT AUDITOR'S REPORT

Louisiana Deferred Compensation Commission
Louisiana Public Employees Deferred Compensation Plan
Baton Rouge, Louisiana

Report on the Financial Statements

I have audited the accompanying financial statements of the Louisiana Public Employees Deferred Compensation Plan, which comprise the statement of net position available for benefits as of December 31, 2018, and the related statement of changes in net position available for benefits for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Plan 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 2018 and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 28, 2019, on my consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive, flowing style.

Jennings, Louisiana

May 28, 2019

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

The Management's Discussion and Analysis of the Louisiana Public Employees Deferred Compensation Plan's financial performance provides an overview of the Plan's financial activities for the year ended December 31, 2018. Please read this in conjunction with the Plan's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The statement of net position available for benefits and the statement of changes in net position available for benefits provide information about the activities of the Plan. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

CONDENSED FINANCIAL INFORMATION

	As of and for the year ended December 31, 2018	As of and for the year ended December 31, 2017
Total assets	\$ 1,638,254,547	\$ 1,701,128,704
Total liabilities	(1,798,608)	(2,465,972)
Total net position	<u>\$ 1,636,455,939</u>	<u>\$ 1,698,662,732</u>
Additions:		
Contributions	\$ 88,183,361	\$ 86,325,969
Net investment income	(43,369,656)	186,949,707
Total plan additions	<u>44,813,705</u>	<u>273,275,676</u>
Deductions:		
Administrative expenses	2,876,499	2,665,862
Benefit payments	104,143,999	97,463,061
Total plan deductions	<u>107,020,498</u>	<u>100,128,923</u>
Change in plan net position	<u>\$ (62,206,793)</u>	<u>\$ 173,146,753</u>

ANALYSIS OF BALANCES AND TRANSACTIONS OF INDIVIDUAL FUNDS

Plan assets decreased by \$62,874,157 due mainly to lower returns on investments and an increase in withdrawals. Net investment income decreased by \$230,319,363 as the investment markets performed worse, primarily in the fourth quarter of 2018. Participant contributions to the Plan increased by \$1,857,392. Benefit payments and rollovers increased by \$6,680,938.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

DESCRIPTION OF CURRENTLY KNOWN FACTS

The Louisiana Deferred Compensation Commission, in fulfilling its fiduciary responsibilities, continued to monitor the performance of the Plan's core fixed and variable investment options. With assistance from the Plan consultant, Wilshire Associates, the Commission closely monitored the fee structure of the Plan along with the investment companies that manage the Plan's investment options.

Respectfully submitted,

Louisiana Deferred Compensation Commission

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
STATEMENT OF NET POSITION AVAILABLE FOR BENEFITS
DECEMBER 31, 2018

ASSETS:	
Cash	\$ 266,313
Contributions receivable	447,930
Receivable for securities sold	1,095,570
Participant fees receivable	362,074
Accrued interest on participant loans	31,779
Investments:	
Mutual funds, at fair value	794,184,711
Self-directed brokerage accounts, at fair value	19,169,406
Collective investment trusts, at net asset value	169,022,594
Guaranteed investment contract, at contract value	637,042,352
Total investments	<u>1,619,419,063</u>
Participant loans	<u>16,631,818</u>
Total assets	<u>1,638,254,547</u>
LIABILITIES:	
Accounts payable	526,319
Due to Great West Retirement	436,724
Payable for securities purchased	<u>835,565</u>
Total liabilities	<u>1,798,608</u>
NET POSITION AVAILABLE FOR BENEFITS	<u><u>\$ 1,636,455,939</u></u>

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

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
STATEMENT OF CHANGES IN NET POSITION AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2018

ADDITIONS:	
Contributions	\$ 88,183,361
Investment income:	
Net appreciation (depreciation) in fair value of investments	(94,151,751)
Interest and dividends	<u>50,782,095</u>
Total investment income (loss)	<u>(43,369,656)</u>
 Total additions	 <u>44,813,705</u>
DEDUCTIONS:	
Administrative fees	2,876,499
Benefit payments	<u>104,143,999</u>
Total deductions	<u>107,020,498</u>
 INCREASE IN NET POSITION	 (62,206,793)
 Beginning net position available for benefits	 <u>1,698,662,732</u>
 NET POSITION AVAILABLE FOR BENEFITS, END OF YEAR	 <u><u>\$ 1,636,455,939</u></u>

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

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NATURE OF OPERATIONS

As required by Louisiana Revised Statutes (R.S.) 42:1301-1308, the Louisiana Public Employees Deferred Compensation Plan (the Plan) is supervised by the Louisiana Deferred Compensation Commission (the Commission), a political subdivision of the State of Louisiana within the executive branch of government. The Commission is composed of seven members who serve without compensation. The Plan was established in accordance with Section 457 of the Internal Revenue Code for the purpose of allowing officers, employees, and independent contractors of the state or any of its political subdivisions to voluntarily elect to contribute a portion of their compensation into the Plan for the purposes of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the participants. Additionally, effective January 1, 2015, the plan added the option to also allow for designated Roth 457(b) after-tax contributions. Qualified Roth 457(b) distributions are tax-free at the time of participant withdrawal. At December 31, 2018, there were 37,168 participants in the Plan. The Commission has no employees.

On January 1, 1987, the Commission selected Great-West Life & Annuity Insurance Company (Great-West) as the plan administrator. Great-West is currently contracted through December 31, 2022.

1. PLAN DESCRIPTION:

The Plan is authorized under Section 457 of the Internal Revenue Code. Amounts contributed by participants were limited to \$18,500 annually for 2018. Participants who were age 50 or older by the end of the calendar year were eligible to make additional catch-up contributions of up to \$6,000 during the year. Additionally, participants who are within three years of their normal retirement age are able to contribute up to \$37,000 per year if certain criteria are met. Participants can elect that income taxes on contributions either be deferred until withdrawn from the Plan or pay the income taxes up front and pay no income taxes at withdrawal (Roth election). At December 31, 2018, there were 565 separate entities participating in the Plan.

Participants of the Plan may withdraw funds from the Plan upon retirement as determined in accordance with retirement laws of that state, separation of service with the employer, or financial hardship as approved by the Plan's hardship committee. In addition, beneficiaries of the participant may withdraw funds upon the death of the participant. Upon retirement, participants may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the life expectancy of the beneficiary. Participants may also withdraw funds, or be required to do so by the Commission, if contributions have not been made in the past 24 months and if the balance of the participant's account is less than \$1,000.

Participants may borrow from their accounts up to the lesser of a) 50% of their account value or b) \$50,000. All loans must be repaid on a periodic basis over a period not to exceed five years, with the exception of loans used to purchase or build a principal residence. Such loans shall provide for repayment over a period not to exceed fifteen years. Loans that are not repaid in accordance with the terms of the loan will be deemed to be a Plan distribution and will be subject to income tax. Interest rates on outstanding loans ranged from 5.25% to 10.25% at December 31, 2018.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

REPORTING ENTITY:

The State of Louisiana and any of its political subdivisions offer employees a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code of 1986. The assets of the plan are held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted for any other use. The administrators are agents of the Commission for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the financial statements of the State of Louisiana.

BASIS OF ACCOUNTING:

Basis of accounting refers to the timing of recognition of revenues and expenses in the accounts and reporting in the financial statements, regardless of the measurement focus applied. The transactions of the Plan are accounted for using the accrual basis of accounting and on a flow of economic resources measurement focus where the aim is to report all inflows, outflows, and balances affecting or reflecting an entity's net position. Accordingly, revenue is recognized when earned and expenses are recognized when incurred. The Plan uses the following practices in recognizing revenues and expenses:

Contributions

Contributions are recognized in the period when the compensation is used to calculate the contributions reported on Internal Revenue Service Form W-2.

Investment Income

Investment income is accrued as earned, net of applicable investment management fees.

Plan Expense

Investment management fees are netted daily from investment income. All administrative expenses are paid from the Plan's net position.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Benefits Paid to Participants

Benefits are recorded at the time withdrawals are made from participant accounts.

Investments

Investments are reported at fair value. Fair value of mutual funds and collective investment trusts not traded on national or international exchanges is calculated using the net asset value reported by the mutual fund. Self-directed brokerage accounts are reported at fair value based on published market prices when available. The investment in the Stable Asset Fund is reported at contract value as this is the value realizable by participants. Purchases and sales of fixed and variable earnings investments are recorded on the trade date.

Loans to Participants

Loans to participants are carried at amortized cost, excluding defaulted loans.

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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net position during the reporting period. Actual results could differ from those estimates.

3. CASH:

Cash includes demand deposits. Under state law, the Plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana or the laws of the United States.

Custodial credit risk

Custodial credit risk is defined as the risk that in the event of a failure of the counterparty, the Plan will not be able to recover the value of its assets that is in possession of an outside party. At December 31, 2018, the Plan had cash in demand deposits (book balances) totaling \$266,313. Deposit balances (bank balances) of \$2,931,176 at December 31, 2018, were secured by federal deposit insurance or collateralized. As such, the deposits were not subject to custodial credit risk.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. INVESTMENTS:

The following itemizes the various investment options and the fair value or contract value of the investments at December 31, 2018:

<u>Investment Options</u>		
Guaranteed investment contract, at contract value:		
Stable Asset Fund	** \$	637,042,352
Self-directed brokerage accounts, at fair value		
		19,169,406
Collective investment trusts, at net asset value		
LifePath Index 2020 Fund		23,381,119
LifePath Index 2025 Fund		27,436,435
LifePath Index 2030 Fund		22,069,827
LifePath Index 2035 Fund		19,378,847
LifePath Index 2040 Fund		15,889,098
LifePath Index 2045 Fund		10,055,354
LifePath Index 2050 Fund		11,125,249
LifePath Index 2055 Fund		6,927,969
LifePath Index 2060 Fund		1,473,811
LifePath Index Retirement Fund		31,284,885
		<u>169,022,594</u>
Mutual funds, at fair value:		
iShares Total U.S. Stock Market Index	**	236,275,787
iShares U.S. Aggregate Bond Index		12,984,307
iShares MSCI Total International Index		13,865,165
MFS Core Equity	**	293,079,761
Principal Diversified Real Asset		11,467,015
Prudential Total Return Bond	**	115,332,961
Vanguard Intermediate-Term Treasury		838,511
American Funds Europacific	**	110,341,204
		<u>794,184,711</u>
		<u><u>\$1,619,419,063</u></u>

** Investments that represent 5% or more of the total assets as of December 31, 2018.

The Plan's investment policy is to provide a broad array of diverse investment options, which will enable plan participants to have the flexibility and the vehicles to develop their individual investment portfolio.

Investments in mutual funds and self-directed brokerage funds are reported at fair value, while the investment in the Stable Asset Fund is reported at contract value. Investments valued at \$1,617,647,288 and \$1,771,775, are owned by plan participants and the Unallocated Plan Assets, respectively. The Unallocated Plan Assets invests in the Stable Asset Fund. Plan participants invest in various types of investment options.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. INVESTMENTS (Continued):

Stable Asset Fund

The Stable Asset Fund (the Fund) is an investment option of the Plan in which bond securities are held as underlying investments in a segregated trust for participants. Great-West is the manager of the Fund. All monies invested in the Fund are maintained and held separate and apart from the Company's general account and any other investment accounts that Great-West may have. In addition, Great-West has assumed sole responsibility of providing wrap coverage in order to guarantee return of the participants' principal and accrued interest.

This investment seeks to preserve principal value and provide a relatively stable rate of interest income. The objective of the Fund is to achieve returns which over time exceed the returns on bank savings accounts and money market funds. The Fund invests in securities issued by the U.S. Government or one of its agencies, as well as high-grade corporate bonds, and mortgage and asset-backed securities.

Quarterly interest rates are declared by Great-West prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

At December 31, 2018, participant account balances plus the Unallocated Plan Assets in the Fund total \$637,042,352. The fair value of the net assets of the Stable Asset Fund as of December 31, 2018, is \$626,910,235. The difference between the participant account balances and the net assets of the Fund is attributable to unrealized gains or losses on investments and differences between the crediting rate and actual interest earned.

Custodial credit risk

Investments managed directly by Great-West and self-directed brokerage account investments are held in separate accounts and therefore are not subject to custodial credit risk. Investments held in separate accounts represent 100% of total Plan investments. The Plan has no policy regarding custodial credit risk.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. INVESTMENTS (Continued):

Concentration of credit risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single user. The concentrations are determined by the participants' elections to invest in the investment options that are available within the Plan. The investment policy for the Plan seeks to offer investment options that will allow participants to choose from a wide array of investment options to diversify their individual portfolios as they see fit. Investments that represent more than five percent of the portfolio are identified in the table on Page 10.

The investment policy for the Stable Asset Fund dictates that the amounts in the fund must be invested in accordance with the following concentration limits:

- A maximum of 100% of the account assets may be invested in U.S. Treasury or agency securities.
- A maximum of 50% of the account assets may be invested in corporate bonds.
- A maximum of 20% of the account assets may be invested in asset-backed securities and mortgage-backed securities.

The following represents the fair value of the underlying investments in the Stable Asset Fund by fixed income sector at December 31, 2018:

Agency - Mortgage-backed securities	\$ 240,674,366
U.S. Treasury bonds	9,891,217
Non-agency - Mortgage-backed securities	49,761,508
Asset-backed securities	45,418,920
Corporate bonds	273,159,657
Foreign government bonds (denominated in USD)	1,021,108
Repurchase agreements (collateralized by U.S. Treasury securities)	7,700,000
Total	<u>\$ 627,626,776</u>

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. The Plan is exposed to interest rate risk through its investment in the Stable Asset Fund. The Plan evaluates interest rate risk on the Stable Asset Fund by its duration. Duration is a measure of a debt instrument's exposure to fair value changes arising from changing interest rates. The investment policy of the Stable Asset Fund limits the average duration to less than six years. The average duration of the Stable Asset Fund was 3.0 years as of December 31, 2018.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

4. INVESTMENTS (Continued):

Credit risk

The debt instruments in the Stable Asset Fund are subject to credit risk. Credit risk is defined as the risk that an insurer or other counter-party to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investor Services or Standard & Poors (S&P). The Plan manages the overall credit risk of its fixed income investments by requiring the Stable Asset Fund's manager, Great-West, to invest in accordance with the Plan's investment policy (the Policy).

The Policy states its objectives for the Stable Value Fund are to preserve principal, provide necessary liquidity, and provide a stable, competitive rate of return. Great-West is permitted to invest Stable Asset Fund assets in investment grade fixed income instruments, including those of the U.S. Government and its agencies, corporate bonds, and mortgage- and asset-backed securities. According to Great-West's contract with the Plan, Great-West must maintain or exceed an overall weighted average credit quality rating by Moody's of "Aa3" or equivalent within the Stable Asset Fund. As of December 31, 2018, the average S&P credit rating of the underlying investments within the Stable Asset Fund was Aa2.

Investment income

Great-West credited interest income to participant accounts for investments in the Stable Asset Fund at the following quarterly rates during the year:

January – March	2.35%
April – June	2.35%
July – September	2.35%
October – December	2.55%

Investment income earned on the Plan's variable earnings options are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair value of the applicable investments.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

INVESTMENTS (Continued):

Fair value measurements

The Plan categorizes fair value measurements within the 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) and the lowest priority to unobservable inputs (Level 3). 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 Plan performed a detailed analysis of the assets and liabilities that are subject to GASB Statement No. 72.

Investments by Fair Value Level	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 794,184,711	\$ -	\$ -	\$ 794,184,711
Self-directed brokerage accounts	19,169,406	-	-	19,169,406
Collective investment trusts	-	169,022,594	-	169,022,594
Total	<u>\$ 813,354,117</u>	<u>\$ 169,022,594</u>	<u>\$ -</u>	<u>982,376,711</u>

Investments not classified:

Guaranteed investment contract	<u>637,042,352</u>
	<u>\$ 1,619,419,063</u>

Valuation Techniques

Mutual funds and self-directed brokerage accounts classified in Level 1 of the fair value hierarchy are valued using share prices/net asset values generally obtained from the National Securities Clearing Corporation, or directly from the fund itself or a secondary pricing source, such as Interactive Data Corporation (IDC). Collective investment trust accounts classified in Level 2 of the fair value hierarchy are valued based on the underlying investments contained within the accounts using quoted prices to value similar types of assets in active markets. The guaranteed investment contract is carried at contract value, therefore it is not classified.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

5. UNALLOCATED PLAN ASSETS:

The Louisiana Public Employees Deferred Compensation Commission maintains an account referred to as the Unallocated Plan Assets (UPA) that is included within the trust fund. These funds are the property of the Plan and are used to pay for the expenses of the Plan. The UPA has a balance of \$1,771,775 at December 31, 2018, which is included in the investment balance reported in the financial statements. The UPA is funded by fees deducted quarterly from Plan participant's accounts by Great-West. Each year the Commission determines the fees necessary to fund the UPA. The Commission has set the annual fee as follows: the annual fee is 0.18% of the first \$50,000 in a Plan participant's account, with a minimum fee of \$10 per year and a maximum of \$90. These fees are deducted quarterly from Plan participant accounts.

For year ended December 31, 2018, the UPA received interest in the amount of \$48,394 and collected fees from participants in the amount of \$1,488,547. Interest earned on UPA balances have been used to reduce the fees that otherwise would be deducted from participant accounts. Administrative fees paid from the UPA for the year ended December 31, 2018, including fees paid to Great-West, totaled \$1,879,531.

6. ALLOCATED LIFE INSURANCE CONTRACTS:

The Plan allows itself to be a conduit for the payment of life insurance premiums by participants to certain life insurance providers. These policies are not available for direct investment and have been excluded from the Plan's assets.

The receipt of the participants' funds and subsequent payment of the life insurance premiums is not reflected in the Plan's Statement of Changes in Net Position Available for Benefits as the Plan's only function as regards to these funds is to act as a conduit to the insurer.

The face amount of life insurance in force with Reliance Insurance Company was \$669,134 as of December 31, 2018. The cash surrender value of these policies in force with Reliance was \$495,731 as of December 31, 2018.

Participants, upon retirement or termination of employment, have the option of transferring ownership of the policy and may continue to make life insurance payments directly to Reliance, or may receive the cash surrender value of the policy.

7. ADMINISTRATIVE FEES:

Administrative fees from Great-West are set at \$47 per participant per annum and are designed to accurately reflect the actual cost incurred for each participant. The fees are calculated and deducted quarterly based on the number of participants at the end of each quarter.

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

8. TAX STATUS:

The Plan received a favorable determination from the Internal Revenue Service (IRS), stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of contributions by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate, unless the participant makes the Roth election, under which the contributions to the Plan do not reduce taxable wages but normal withdrawals are not taxable.

Accounting principles generally accepted in the United States of America require Program management to evaluate tax positions taken by the Program and recognize a tax liability if the Program has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Program, and has concluded that as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

9. PLAN TERMINATION:

Currently, there are no intentions to terminate the Plan. However, the State reserves the right to terminate, suspend, withdraw, or amend the Plan at any time.

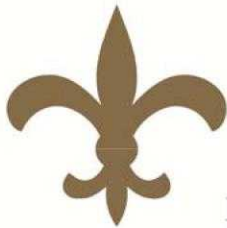
10. RISKS AND UNCERTAINTIES:

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net position.

It is the opinion of the State's legal counsel, the Louisiana Attorney General, that the State has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor.

11. COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO AGENCY HEAD:

The Plan is administered by Great-West and has no employees of its own. As such, the disclosure of compensation to the agency head required by the State of Louisiana is not applicable.



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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

Louisiana Deferred Compensation Commission
Louisiana Public Employees Deferred Compensation Plan
Baton Rouge, Louisiana

I 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 the Louisiana Public Employees Deferred Compensation Plan as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise Louisiana Public Employees Deferred Compensation Plan's basic financial statements, and have issued my report thereon dated May 28, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Public Employees Deferred Compensation Plan's internal control. Accordingly, I do not express an opinion on the effectiveness of Louisiana Public Employees Deferred Compensation Plan'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

A handwritten signature in blue ink that reads "J. Aaron Coogan, CPA, LLC". The signature is written in a cursive, flowing style.

May 28, 2019
Jennings, Louisiana

LOUISIANA PUBLIC EMPLOYEES DEFERRED COMPENSATION PLAN
STATE OF LOUISIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2018

Section I.	Summary of Auditor's Results
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Financial Statements

Type of report the auditor issue: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes __X_no
- Significant Deficiency(s) ___yes __X_no

Noncompliance material to financial statements noted? ___yes __X_no

Section II.	Financial Statement Findings
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None