



Luther Speight & Company
Certified Public Accountants and Consultants

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF NEW ORLEANS**

**FINANCIAL STATEMENTS TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
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Luther Speight & Company
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
City Council of the City of New Orleans

We have audited the accompanying financial statements of the Employees' Retirement System of the City of New Orleans (the Plan), a component unit of the City of New Orleans, which comprises the statements of fiduciary net position as of December 31, 2018, the related statement of changes in fiduciary net position 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

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 Plan'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 Plan'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.

Continued,

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Employees' Retirement System of the City of New Orleans' net position as of December 31, 2018, and changes therein for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As disclosed in Note C to the financial statements, the total pension liability for the Plan was \$658,352,626 at December 31, 2018. The actuarial valuations were based on various assumptions made by the Plan's actuary and presented in the actuary's valuation and review report as of January 1, 2019. Because actual experience may differ from the assumptions used in the actuarial valuation, there is a risk that the total actuarial accrued liability at December 31, 2018 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 and other required supplementary information, as listed in the table of contents, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of New Orleans Employees' Retirement System's basic financial statements. The supporting schedules, as listed in the table of contents and the *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.

The supporting 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 audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Continued,

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2019 on our consideration of the City of New Orleans Employees' Retirement 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.



Luther Speight & Company CPAs

New Orleans, Louisiana

June 7, 2019

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

The following is management's discussion and analysis of the financial performance of the Employees' Retirement System of the City of New Orleans. It is presented as a narrative overview and analysis for the purpose of assisting the reader with interpreting key elements of the financial statements, notes to the financial statements, required supplementary information, and supporting schedules for the year ended December 31, 2018.

Financial Highlights

- The Plan's net position restricted for pension benefits for the current year totaled \$366 million as compared to the prior year of \$392 million. This difference represents a \$26 million or 7% decrease.
- Net depreciation in fair value reflected a balance of (\$26) million for the current year. This balance represents a decrease of \$64 million as compared to the previous year net appreciation in fair value of \$38 million.
- Total investments decreased from a 2017 level of \$389 million to the reported level of \$374 million for the year 2018.
- Total contributions to the Plan were recorded at \$40 million for 2018, which reflected a \$5 million increase from the previous year.

Overview of the Financial Statements

An explanation of the financial statements and schedules that present the financial status of the Plan is as follows:

- Statement of Fiduciary Net Position – This statement reports the Plan's assets, liabilities, and resulting net position restricted for pension benefits as of December 31, 2018.
- Statement of Changes in Fiduciary Net Position – This statement reports the results of the Plan's activities during the calendar year 2018, categorically disclosing the additions to and deduction from Plan's net position. The net increase to Plan net position on this statement supports the change in net position on the Statement of Fiduciary Net Position between the years ended December 31, 2017 and 2018.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Continued,

- Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements.
- Required Supplementary Information (RSI) – During the 2015 year, the Plan implemented Governmental Accounting Standards Board (GASB) Statement 68. The Plan implemented GASB Statement 67 during the 2014 year. The RSI is presented in accordance with those Statement requirements. Substantial actuarial information included within the RSI is provided by the Plan's Actuary with an actuarial valuation date of January 1, 2019.

A comparative analysis of the Plan's investments is as follows:

| INVESTMENTS | 2018 | 2017 |
|--|----------------|----------------|
| Market Prices Quoted in Active Markets: | | |
| Investment Manager's Cash | \$ 33,354,936 | \$ 33,777,972 |
| Subtotal | 33,354,936 | 33,777,972 |
| Equities: | | |
| Domestic | 137,768,930 | 148,609,194 |
| International | 48,603,150 | 58,771,607 |
| Subtotal | 186,372,080 | 207,380,801 |
| Fixed Incomes: | | |
| Domestic | 69,183,824 | 68,012,408 |
| Foreign | 7,302,461 | 21,813,227 |
| Subtotal | 76,486,285 | 89,825,635 |
| Market Prices Determined by Other Methods: | | |
| Hedge Funds | 27,609,649 | 10,474,562 |
| Private Equities | 16,882,389 | 15,776,478 |
| Middle Market Debt | 10,672,039 | 11,250,205 |
| Real Estate | 22,360,861 | 20,379,916 |
| Subtotal | 77,524,938 | 57,881,161 |
| TOTAL INVESTMENTS | \$ 373,738,239 | \$ 388,865,569 |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Additions to Plan Net Assets

Additions to the Plan's net position were derived primarily from contributions from employees and employers in addition to investment income. Net investment income decreased by \$67 million compared to the prior year. The balance for 2018 reflected a loss in net investment income of (\$15) million while the year 2017 reflected positive results of \$52 million. The significant decrease in net investment income was a reflection of the Plan's investment portfolio overall performance as compared to the prior year.

The Plan's contributions are comprised primarily of employer and employee contributions. As indicated below, the contribution levels reflected increases between the 2017 and 2018 years:

| Contributions: | 2018 | 2017 |
|--------------------------------|---------------|---------------|
| Employer - City of New Orleans | \$ 28,095,672 | \$ 24,534,482 |
| Employer - Other Agencies | 2,969,555 | 2,635,439 |
| Employee | 8,246,577 | 7,677,009 |
| Transfers from Other Systems | 507,195 | 729,180 |
| Total Contributions | \$ 39,818,999 | \$ 35,576,110 |

Deductions From Plan Net Assets

Deductions from Plan net assets include retirement, disability, death, and survivor benefits. These deductions remained relatively constant between 2017 and 2018 at a reported level of \$49 million for 2017 and \$50 million for 2018. A summary of Plan additions and deductions are as follows:

| | 2018 | 2017 |
|--|-----------------|---------------|
| Total Additions | \$ 24,229,383 | \$ 87,482,633 |
| Total Deductions | (50,319,390) | (49,264,915) |
| Net Increase/(Decrease) in System Net Assets | (\$ 26,090,007) | \$ 38,217,718 |

Significant Actuarial Matters

The Plan engaged a new actuary firm, Segal Consulting, for the January 1, 2019 actuarial valuation. The summary of significant actuarial matters is substantially based upon their actuarial valuation and review report effective January 1, 2019. The actuarial highlights include:

1. The actuarially determined contribution for the upcoming year is \$28,689,759, an increase of \$674,264 from last year. The contribution as a percentage of payroll decreased from 23.19% of payroll to 22.32% of payroll, based on a 15-year level dollar amortization of the unfunded actuarial accrued liability.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018

Continued,

2. Actual employer contributions made during the fiscal year ending December 31, 2018 were \$31,065,227, or 110.9% of the actuarially determined contribution. In the prior fiscal year, actual contributions were \$27,169,921, or 101.2% of the prior year actuarially determined contribution.
3. The funded ratio (the ratio of the actuarial value of assets to actuarial accrued liability) is 61.22%, compared to the prior year funded ratio of 61.65%. This ratio is one measure of funding status, and its history is a measure of funding progress. Using the market value of assets, the funded ratio is 55.55%, compared to 62.22% as of the prior valuation date. These measurements are not necessarily appropriate for assessing the sufficiency of Plan assets to cover the estimated cost of settling the Plan's benefit obligation or the need for the amount of future contributions.
4. The unfunded actuarial accrued liability is \$255.3 million, which is an increase of \$13.8 million since the prior valuation.
5. The actuarial loss from investment and other experience is \$26.9 million, or 4.1% of actuarial accrued liability.
6. The rate of return on the market value of assets was (4.03%) for the Plan year ended December 31, 2018 plan year. The return on the actuarial value of assets was 6.60% for the same period due to the recognition of prior years' investment gains and losses. This resulted in an actuarial loss when measured against the assumed rate of return of 7.50%. This actuarial investment loss increased the average employer contribution rate by 0.3% of pay.
7. The actuarial value of assets is 110.2% of the market value of assets.

**THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2018**

Continued,

A comparative summary of key actuarial results for the Plan as of January 1, 2019 actuarial valuation is presented below. This information is reproduced from the Segal Consulting Actuarial Valuation and Review Report, effective January 1, 2019.

| | | 2019 | 2018 |
|---|---|---------------|---------------|
| Contributions for plan year beginning January 1: | Actuarially determined employer contributions | \$28,689,759 | \$28,015,495 |
| | Actuarially determined employer contributions as a percent of payroll | 22.32% | 23.19% |
| January 1: | Actual employer contributions | -- | 31,065,227 |
| Actuarial accrued liability for plan year beginning January 1: | Retired participants and beneficiaries | \$427,073,020 | \$408,342,021 |
| | Inactive vested participants | 18,173,208 | 16,199,217 |
| | Active participants | 213,106,398 | 205,225,213 |
| | Total | 658,352,626 | 629,766,451 |
| | Normal cost including administrative expenses | 9,493,233 | 9,810,416 |
| Assets for plan year beginning January 1: | Market value of assets (MVA) | \$365,737,309 | \$391,827,316 |
| | Actuarial value of assets (AVA) | 403,015,342 | 388,233,310 |
| | Actuarial value of assets as a percentage of market value of assets | 110.19% | 99.08% |
| Funded status for plan year beginning January 1: | Unfunded actuarial accrued liability on market value of assets | \$292,615,317 | \$237,939,135 |
| | Funded percentage on MVA basis | 55.55% | 62.22% |
| | Unfunded actuarial accrued liability on actuarial value of assets | \$255,337,284 | \$241,533,141 |
| | Funded percentage on AVA basis | 61.22% | 61.65% |
| | Amortization period on an AVA basis | 15 | 15 |
| Demographic data for plan year beginning January 1: | Number of retired participants and beneficiaries | 2,143 | 2,078 |
| | Number of inactive vested participants | 328 | 303 |
| | Number of active participants | 2,873 | 2,716 |
| | Total payroll | \$128,530,078 | \$120,808,711 |
| | Average payroll | 44,737 | 44,480 |

Requests for Information

This management's discussion and analysis is designed to provide a general overview of the finances of the Employees' Retirement System of the City of New Orleans for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the System Administrator, City of New Orleans and the Employees Retirement System, 1300 Perdido Street, New Orleans, LA 70131.

BASIC FINANCIAL STATEMENTS

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018

| | |
|---|-----------------------|
| ASSETS | |
| Cash | \$ 1,121 |
| Receivables | |
| Contributions | 1,931,016 |
| Accrued Interest & Dividends | 134,920 |
| Due From Broker for Securities Sold | 15,830 |
| Total Receivables | <u>2,081,766</u> |
| INVESTMENTS | |
| Market Prices Quoted in Active Markets: | |
| Cash & Cash Equivalents | <u>33,354,936</u> |
| Subtotal | <u>33,354,936</u> |
| Equities: | |
| Domestic | 137,768,930 |
| International | 48,603,150 |
| Subtotal | <u>186,372,080</u> |
| Fixed Incomes: | |
| Domestic | 69,183,824 |
| Foreign | 7,302,461 |
| Subtotal | <u>76,486,285</u> |
| Market Prices Determined by Other Methods: | |
| Hedge Funds | 27,609,649 |
| Private Equities | 16,882,389 |
| Middle Market Debt | 10,672,039 |
| Real Estate | 22,360,861 |
| Subtotal | <u>77,524,938</u> |
| TOTAL INVESTMENTS | <u>373,738,239</u> |
| TOTAL ASSETS | <u>375,821,126</u> |
| LIABILITIES | |
| Due to Terminated employees | 985,575 |
| Accounts Payable | 5,261 |
| Escrow | 2,895 |
| Due to Broker for Securities Purchased | 8,900,000 |
| Accrued Management and Custodial Fees | 190,086 |
| Total Liabilities | <u>10,083,817</u> |
| NET POSITION RESTRICTED FOR PENSION BENEFITS | <u>\$ 365,737,309</u> |

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

THE EMPLOYEES' RETIREMENT SYSTEM OF THE
CITY OF NEW ORLEANS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

ADDITIONS

Contributions:

| | |
|--------------------------------|--------------|
| Employer - City of New Orleans | \$28,095,672 |
| Employer - Other Agencies | 2,969,555 |
| Employee | 8,246,577 |
| Transfers from Other Systems | 507,195 |

| | |
|---------------------|--------------|
| Total Contributions | \$39,818,999 |
|---------------------|--------------|

Investment Income:

| | |
|---|--------------|
| Net Appreciation/(Depreciation) in Fair Value of Investments | (20,855,301) |
| Interest and Dividends | 6,051,096 |
| Securities Litigation | 153,539 |
| Total Investment Income | (14,650,666) |
| Less: Investment expense | (938,950) |
| Net investment income | (15,589,616) |

| | |
|-----------------|------------|
| Total Additions | 24,229,383 |
|-----------------|------------|

DEDUCTIONS

| | |
|---|------------|
| Retirement Allowances | 19,162,413 |
| Retirement Allowance Option II, III, IV | 15,223,447 |
| Policy 4 Withdrawals & Policy Annuities | 4,131,626 |
| Drop Withdrawal | 3,098,523 |
| Cost of Living Benefits | 1,567,326 |
| Ordinary Disability Retirements | 1,440,143 |
| Refunds to Members | 1,965,803 |
| Separation Retirements | 1,519,051 |
| Transfers to the State Retirement System | 327,904 |
| Transfers to the Sewerage and Water Board | 4,043 |
| Transfers to Firefighters Retirement System | 92,069 |
| Accidental Disability Retirement | 509,493 |
| Drop Annuity | 666,285 |
| Lump Sum Benefits Due to Death of Members | 287,944 |
| Administrative Expenses | 243,972 |
| Transfer to M.P.E.R.S. | 42,589 |
| Operating Expenses | - |
| Option I Death Benefits | 36,759 |
| Total Deductions | 50,319,390 |

| | |
|-------------------------|--------------|
| Net Increase/(Decrease) | (26,090,007) |
|-------------------------|--------------|

NET POSITION RESTRICTED FOR PENSIONS

| | |
|-------------------|----------------|
| Beginning of Year | 391,827,316 |
| End of Year | \$ 365,737,309 |

The accompanying notes are an integral part of this financial statement.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

I. DESCRIPTION OF THE SYSTEM

A. PLAN DESCRIPTION

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS (the Plan) is a Defined Benefit Pension Plan established under the laws of the State of Louisiana. The City Charter provided that the Retirement Ordinance (Chapter 114 of the Code) continues to govern and control the Retirement System under the management of the Board of Trustees, and also for changes in the Retirement System by council action, subject to certain limitations for the purpose of providing retirement allowances, death, and disability benefits to all officers and employees of the parish, except those officers and employees who are already or may hereafter be included in the benefits of any other pension or retirement system of the city, the state or any political subdivision of the state.

The EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS became operative on July 1, 1947. It is supported by joint contributions of the City and employee members and income from investments. The City makes contributions for members during active service as well as for periods of service of members employed prior to July 1, 1947. In this way, reserves are accumulated from the city and employee contributions.

The general administration and the responsibility for the proper operation of the Retirement System, and for making effective the provisions of the Retirement Ordinance, are vested in the Board of Trustees of the Retirement System.

At December 31, 2018 the Employee Retirement System of the City of New Orleans' membership consisted of:

| | |
|--|---------------------|
| Inactive plan members or beneficiaries receiving benefits | 2,143 |
| Inactive plan members entitled to but not yet receiving benefits | 328 |
| Active plan members | <u>2,873</u> |
| Total participants as of the measurement date | <u><u>5,344</u></u> |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

The City of New Orleans requires membership in the EMPLOYEES' RETIREMENT SYSTEM for all City of New Orleans' regularly employed persons. Membership and eligibility information is summarized below:

| | |
|--|--|
| Plan Year: | January 1 through December 31 |
| Plan Status: | Ongoing |
| Normal Retirement: | |
| <u>Members Hired Prior to January 1, 2018</u> | |
| <i>Eligibility</i> | Age 65 and 5 years of service |
| <i>Amount</i> | 2.5% of average compensation times creditable service for the first 25 years plus 4.0% of average compensation times creditable service thereafter |
| <i>Average Annual Compensation</i> | Average annual compensation for highest consecutive 60 month period. Compensation for purposes of calculating a pension is capped at \$200,000 per year. |
| | |
| <u>Members Hired on or After January 1, 2018</u> | |
| <i>Eligibility</i> | Age 65 and 5 years of service |
| <i>Amount</i> | 1.9% of average compensation times creditable service |
| <i>Average Annual Compensation</i> | Average annual compensation for highest consecutive 60 month period. Compensation for purposes of calculating a pension is capped at \$100,000 per year, adjusted for inflation as determined by the Trustees from time to time. |
| | |
| Unreduced Early Retirement: | |
| <u>Members Hired Prior to January 1, 2018</u> | |
| <i>Eligibility</i> | Any age with 30 years of service or age plus service equals 80 |
| <i>Amount</i> | Normal Retirement amount, unreduced |
| <u>Members Hired on or After January 1, 2018</u> | |
| <i>Eligibility</i> | Any age with 30 years of service or age 62 with 20 years of service |
| <i>Amount</i> | Normal Retirement amount, unreduced |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

Early Retirement:

Members Hired Prior to January 1, 2018

| | |
|---|---|
| <i>Eligibility</i> | Age 60 and 10 years of service |
| <i>Amount</i> | Normal Retirement amount, reduced by 3% per year prior to age 62 |
| Minimum Retirement Benefit: | \$3,600 per year for any member with at least 10 years of creditable service |
| Ordinary Disability: | |
| <i>Eligibility</i> | Any age with 10 years of service |
| <i>Amount</i> | 75% of the benefit the member would have earned had they worked until age 65 |
| Accidental Disability: | |
| <i>Eligibility</i> | Disability occurs as a result of an accident sustained while in the actual performance of duty, without willful negligence on the member's part |
| <i>Amount</i> | 65% of the member's compensation for the 12 months preceding the accident, offset by any payments received from Workers Compensation |
| Vesting: | 5 years of service |
| Spouse's Pre-Retirement Death Benefit: | |
| <u>Death while an Active Member</u> | |
| <i>Member had less than three years of service at date of death</i> | Refund of member contributions plus interest |
| <i>Member had at least three years of service at date of death</i> | Refund of member contributions plus interest plus 25% of the member's base pensionable earnings in the year preceding death plus 5% of the member's base pensionable earnings for each full year in excess of three years |
| <u>Death after Separation from Service</u> | |
| <i>Not Retirement Eligible</i> | Refund of member contributions plus interest |
| <i>Retirement Eligible</i> | Survivor's portion of 100% Joint and Survivor benefit with Pop-Up, payable as if member retired immediately prior to death |
| Post-Retirement Death Benefit: | Based on form of payment chosen by member upon retirement |
| Optional Forms of Benefits: | Life Only Annuity; 50% or 100% Joint and Survivor Pension with Pop-Up |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

DROP: Members eligible for Normal Retirement or Unreduced Early Retirement may elect to defer receipt of their retirement benefits while continuing employment*. Upon the effective date of participating in the DROP, a member's years of service and Average Monthly Compensation become frozen for purposes of determining pension benefits. Additional service beyond the date of DROP participation no longer accrues any additional benefits under the Retirement System. Benefits that would have been payable are accumulated at interest to date of termination and paid in a single lump sum or in substantially equal payments over a period designated by the member but not to exceed 119 months. The interest rate shall be determined annually by the Trustees and credited as of each December 31st.

*Members with at least 10 years of creditable service as of January 1, 2018 have a maximum DROP period of five (5) years; all other members have a maximum DROP period of three (3) years.

Contribution Rates:

Member

6.0% of pensionable compensation

Employer

Actuarial Determined Contribution less member contributions

Changes in Plan Provisions:

The following plan provisions were effective January 1, 2018 for participants hired on or after January 1, 2018 and are reflected for the first time in this valuation:

- Benefit multiplier changed to 1.90% for all years of service
- 80 point provision eliminated for retirement eligibility
- Age 60 with 10 years of service early retirement eligibility eliminated
- Age 62 with 20 years of service retirement eligibility added
- Pensionable earnings capped at \$100,000, periodically adjusted for inflation by the Trustees
- DROP period changed to 36 months
- The funded percentage necessary for the approval of Cost of Living Adjustments (COLA's) was increased to 95%

A detailed plan agreement has been published and made available to all plan participants. Their agreement contains all information regarding the plan's benefits, amendments, actuarial assumptions and contribution requirements.

DESCRIPTION OF ACTUARIAL COST METHOD

Under the Entry Age Normal Cost Method, the normal cost of the Plan is designed to be a level percentage of payroll, calculated on an aggregate basis, spread over the entire working lifetime of the participants. The future working lifetime is determined from each participant's hypothetical entry age into the Plan assuming the Plan had always been in existence, to his expected retirement date. The actuarial accrued liability is the amount of total liability not covered by future entry age normal costs. This amount is composed of the actuarial value of benefits already funded (assets) and those not yet funded (unfunded actuarial liability).

The Plan's funding cost for the year is the sum of the Entry Age Normal Cost and the amount necessary to amortize the remaining unfunded actuarial liability as of the valuation date over the adopted amortization period.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

The basis used to amortize the unfunded actuarial liability can be “open” (that is, a constant number of years) or “closed” (that is, with the remaining period reducing by one each year). The basis may also be either a level dollar amortization method (more conservative) or a method based on increasing valuation payroll (less conservative). Beginning with the January 1, 2011 actuarial valuation, the actuarial cost method was changed from the Frozen Initial Liability Method to the Entry Age Normal Cost Method. The former amortization basis used through the January 1, 2009 actuarial valuations consisted of a level dollar amortization for a ten (10) year “closed” amortization period from January 1, 2008 through December 31, 2017.

Effective January 1, 2011 this was replaced by a level dollar amortization for an “open” ten (10) year amortization period effective on each valuation date. Beginning with the January 1, 2012 actuarial valuation the open ten (10) year amortization amount was changed to an open fifteen (15) year amortization.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with the standards established by the Government Accounting Standards Board (GASB). The following are the significant accounting policies followed by the plan:

Basis of Accounting – The accompanying financial statements are prepared on the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when incurred. Contributions are recognized as revenue in the period in which employee services are performed. Interest income is recognized in the period earned and dividends are recognized in the period declared. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

During the year ended December 31, 2014, the Plan adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*. GASB Statement No. 67 established standards of financial reporting for defined benefit pension plans. Significant changes included specifying the approach of contributing entities to measure pension liabilities for benefits provided through the pension plan, increased the note disclosure requirements, and provided for additional required supplementary information schedules.

Method Used to Value Investments – The Plan implemented GASB 72, *Fair Value Measurement and Application*, during the year ended December 31, 2016. As required by GASB Statement No. 72, investments are reported at fair value. This statement requires a government to use valuation techniques that are appropriate under the circumstances and with sufficient data available to measure fair value. Valuation techniques are used to measure fair value and maximize the use of relevant inputs and minimize the use of unobservable inputs. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value based on three levels;

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, whether directly or indirectly.
- Level 3 inputs are unobservable inputs, such as management's assumptions or investment manager assumptions that are unobservable.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques used. These disclosures are organized by type of asset or liability. GASB Statement No. 72 also requires additional disclosures regarding investment in certain securities that calculate net asset value per share (or its equivalent).

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchanges are valued at the last reported sales price at current exchange rates. The fair value of mutual funds and exchange traded funds not traded on a national or international exchange are calculated using the net asset value reported by the exchange traded funds and mutual funds. The fair value of investments in limited partnerships and limited liability companies were calculated as the Plan's percentage of ownership of the partner's capital reported by the limited partnership or limited liability company.

C. NET PENSION LIABILITY OF EMPLOYERS

The components of the liability of the Plan's employers to plan members for benefits provided through the pension plan was as follows as of December 31, 2018:

| Total Pension Liability | Plan Fiduciary Net Position | Employers' Net Pension Liability | Plan Fiduciary Net Position as a % of the Total Pension Liability |
|----------------------------|--------------------------------|--|--|
| \$ 658,352,626 | \$ 365,737,309 | \$ 292,615,317 | 55.55% |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. 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 December 31, 2018 audit were based on the results of an actuarial valuation report as of January 1, 2019. The Schedule of Employers' Net Pension Liability is located in the required supplementary information following the *Notes to the Financial Statements* presents the financial activity affecting whether the Plan's fiduciary net position is increasing or decreasing over time relative to the total pension liability.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

Significant actuarial assumptions used in the latest valuation are as follows:

Rationale for Assumptions The information and analysis used in selecting each demographic assumption that has a significant effect on this actuarial valuation is from the 2006 – 2010 Actuarial Experience Study as performed by the prior actuary.

Net Investment Return: 7.50%

Salary Increases: 5.00%, compounded annually

Mortality Rates: *Healthy:* RP 2000 Combined Healthy Mortality Table, set forward six years for males under age 70 and set forward four years for females under age 65, without projection
Disabled: RP 2000 Disability Mortality Table, without projection
 No provision was made for future mortality improvement after the measurement date based on the professional judgment of the prior actuary.

| Termination Rates before Retirement: | Age | Mortality | | Rate (%) | | |
|--------------------------------------|-----|-----------|---------|-------------------------------------|-------|--------|
| | | Male | Female | Withdrawal after 5 years of Service | | |
| | | | | Disability | Male | Female |
| | 20 | 0.0378 | 0.0201 | 0.1650 | 24.04 | 17.63 |
| | 30 | 0.0841 | 0.0435 | 0.1650 | 12.25 | 12.83 |
| | 50 | 0.4200 | 0.2424 | 0.5250 | 5.00 | 4.00 |
| | 70 | 2.2206 | 1.6742 | 0.9150 | 5.00 | 4.00 |
| | 90 | 18.3408 | 13.1682 | 0.9150 | 0.00 | 0.00 |

1 Mortality rates shown for base table.

2 All disabilities are assumed to be Ordinary Disabilities.

3 For the first five years of service, turnover is as shown on the next page.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target allocation as of December 31, 2018 were determined by the System's investment advisors and are summarized as follows:

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

| Asset Class | Target Allocation | Long- Term Expected Real Rate of Return | Weighted Rate of Return |
|------------------------------------|----------------------|---|-------------------------------|
| Cash Equivalents | 2.00% | 1.41% | 0.03% |
| Equity Securities | 58.00% | 6.79% | 3.94% |
| Fixed Incomes | 25.00% | 2.65% | 0.66% |
| Real Estate | 5.00% | 4.08% | 0.20% |
| Alternatives | 10.00% | 7.37% | 0.74% |
| Expected Arithmetic Nominal Return | | | <u>5.57%</u> |

The discount rates used to measure the Total Pension Liability (TPL) was 7.5% as of December 31, 2018. The projection of cashflows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan Fiduciary Net Position (FNP) was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the TPL as of December 31, 2018.

In accordance with GASB 67, regarding the disclosure of sensitivity of net pension liability to changes in discount rate, the following presents the net pension liability of the participating employers calculated using the discount rate of 7.5% 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 6.5% or one percentage point higher 8.5% than the current rate:

| | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|-------------------------|-----------------------|----------------------------------|-----------------------|
| Total Pension Liability | \$ 740,652,188 | \$ 658,352,626 | \$ 603,337,792 |
| Fiduciary Net Position | 365,737,309 | 365,737,309 | 365,737,309 |
| Net Pension Liability | <u>\$ 374,914,879</u> | <u>\$ 292,615,317</u> | <u>\$ 237,600,483</u> |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

F. INVESTMENTS

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following fair value measurements as of December 31, 2018:

| Asset Category | Total | Quoted Prices in Active Markets for Identical Assets - Level 1 | Significant Other Observable Inputs - Level 2 | Significant Other Unobservable Inputs - Level 3 |
|--|--------------------|---|---|---|
| Cash Equivalents | \$ 33,343,981 | \$ 6,122,560 | \$ 27,221,421 | \$ - |
| Equity Securities | | | | |
| Domestic Equity | 137,777,096 | 137,777,096 | - | - |
| Real Estate Funds | 22,360,861 | - | 22,360,861 | - |
| International Equity Funds | 48,603,150 | 10,685,725 | 20,562,821 | 17,354,604 |
| | 208,741,106 | 148,462,820 | 42,923,682 | 17,354,604 |
| Fixed Income Securities | | | | |
| Corporate Bonds | 2,791 | - | 2,791 | - |
| Fixed Income | 76,486,284 | - | 76,486,284 | - |
| | 76,489,075 | - | 76,489,075 | 17,354,604 |
| | 285,230,181 | 148,462,820 | 119,412,758 | 34,709,207 |
| Global Tactical Allocations | 17,800,000 | 8,900,000 | 8,900,000 | |
| Investments measured at the Net Asset Value (NAV) | | | | |
| Private Equity | 27,554,428 | | 23,429,228.54 | 4,125,199 |
| Hedge Funds | 9,809,649 | | 9,809,649.32 | |
| Total investments at NAV | 37,364,077 | - | 33,238,878 | 4,125,199 |
| Total investments at fair value | \$ 373,738,239 | | | |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
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Continued,

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 matrix pricing techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

The unfunded commitments and redemption terms for investments measured at the net asset value (NAV) per share or its equivalent as of December 31, 2018 is presented on the following table:

| Asset Category | Net Asset Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|-------------------|-----------------|----------------------|----------------------|--------------------------|
| Hedge Funds | \$ 9,866,092 | \$ - | Quarterly | 90 Days |
| Private Equity | \$ 27,552,621 | \$ 5,579,094 | N/A | N/A |
| Real Estate Funds | \$ 22,610,248 | \$ - | Quarterly | 90 Days |

Private Equity

Private equity is an asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. This asset class includes investments in various private equity funds. The fair values of the investments in this asset class have been determined using the Net Asset Value (NAV) per share or equivalent of the private equity capital.

A summary of significant positions in this category include;

- Mesirow Financial Private Equity Partnership Fund V, L.P. – The fund invests in limited liability companies and other partnerships. The investments are typically illiquid and cannot be redeemed. Although a secondary market exists for these underlying investments, it is not active and individual transactions are typically not observable.
- Pathway Capital, LP is a global private equity investment manager. The Plan has an investment in one of their private equity funds. The fund seeks to invest in private companies with development potential. The fund also invests in the private equity secondary market and co-investments where opportunities may be available. The fund specializes in investing in companies in a number of different sectors including but not limited to healthcare, media and telecom, and industrials.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
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Continued,

- Crescent Capital, LP is a global debt securities investment manager. The firm is head quartered in Los Angeles with offices in the U.S. and Europe. The City of New Orleans Employees' Retirement System has an investment in their direct lending fund. The fund is positioned to provide capital to U.S. private equity backed companies. The fund utilizes a number of investment instruments including but not limited to revolving credit, term loans, and recapitalizations and refinancing.
- Cyprium Investors, IV LP – The purpose of this fund is to invest in securities, principally of privately held companies and to manage and supervise such investments.
- Partners Group Private Equity, LLC – The objective of this fund is to seek attractive long-term capital appreciation by investing in a diversified portfolio of private equity investments. To achieve its objective, the Fund invests substantially all of its assets in limited liability companies.

Hedge Funds

The hedge fund category of investments includes securities in a variety of strategies including real estate, fund of funds, derivatives and others. Securities in this category are not traded on stock exchanges and do not have quoted market prices. Fair value is determined and reported by the respective investment manager to the Plan's trustee on a recurring basis. The Plan's investment advisor reviews the reported values on a recurring basis and provides analysis to the Plan's board.

A summary of significant positions in this category include;

- Millennium International, LTD (Millennium) – This fund is engaged in in the business of trading equities, fixed income products, options, futures and other financial instruments.
- IIG Trade Opportunities is a global trade finance manager. The Plan has an investment in their IIG Trade Opportunities fund. The fund invests in short-term financial instruments issued in connection with trade finance transactions on a global basis. These transactions focus on trade and commodity inventory finance, including but not limited to pre-export production and processing finance.

Investments of the Plan are reported at fair market value, where published values are available in actively traded markets. Estimated values are reported where published values are not available. Total reported value of investments at December 31, 2018 were \$373,738,239.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
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Continued,

The following table presents the reported values of investments that represent 5% or more of the Plan's net position.

| SECURITY DESCRIPTION | Fair Value |
|--|----------------|
| Equity | |
| Cornerstone - Large Cap Core | \$ 30,688,715 |
| Southeastern - All Cap Value | 23,964,210 |
| Vanguard Extended Market Index | 25,677,589 |
| Vanguard Growth - Large Cap Growth | 21,865,487 |
| Vanguard Institutional Index | 18,364,260 |
| Wedge Capital Management - Large Cap Value | 21,200,151 |
| Fixed Income | |
| Corbin Capital - Core Fixed Income | 22,389,109 |
| Macquarie - Core Plus Fixed Income | 23,291,790 |
| TCW - Core Fixed Income | 23,173,145 |
| | \$ 210,614,456 |

The Plan's overall investment policy sets forth an investment time horizon of greater than ten years for the aggregate fund however no specific limitations are placed upon the maturities for fixed income securities.

Net Appreciation/(Depreciation)

During 2018, the Plan's investments, including gains and losses on investments bought and sold, as well as held during the year depreciated in value by \$21 million. The details are as follows:

| Asset Category | Net Appreciation/ (Depreciation) |
|--------------------------------|--|
| Domestic Equities | \$ (13,554,236) |
| Foreign Equities | (7,306,124) |
| Domestic Fixed Incomes | 1,254,899 |
| Foreign Obligations | (2,200,411) |
| <u>Alternative Investments</u> | |
| Hedge Funds | (3,036,267) |
| Private Equities | 2,052,908 |
| Middle Market Debt | 804,881 |
| Real Estate | 1,024,100 |
| Total | \$ (20,960,250) |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
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Continued,

The Plan's Board sets forth an investment policy that establishes asset allocations by asset class that includes both target percentages and ranges. The details of the Plan's asset allocation are as follows:

| Asset Category | Target Allocation | Actual Allocation |
|------------------------|----------------------|----------------------|
| Domestic Equity | 42% | 40% |
| International Equity | 14% | 14% |
| Core Plus Fixed Income | 20% | 20% |
| Foreign Fixed Income | 2% | 2% |
| GTAA | 8% | 5% |
| Real Estate | 5% | 6% |
| Hedge Funds | 2% | 3% |
| Private Equity | 5% | 8% |
| Cash Reserves | 2% | 2% |
| | <u>100%</u> | <u>100%</u> |

G. ALTERNATIVE INVESTMENTS

In recognition of the increasing opportunities available in today's dynamic investment universe to seek returns that may be less correlated to traditional broad equity and fixed income markets, the Board may allocate up to 20% of the Aggregate Fund to alternative investments.

The Board recognized that alternative investments may contain a high-level of risk due to, but not limited to, such factors as potential liquidity constraints, restrictions on the ability to withdraw invested capital, concentrated positions, short positions, leverage, high volatility and the marketability of such investments. These investments include, but are not limited to real estate, private equity, options and derivatives. As of December 31, 2018, alternative investments were \$55 million or 15% of the total investments.

Quoted market prices are generally not available for these alternative investments. Accordingly, the recorded amounts represent estimated fair values. The Plan engages independent investment managers to advise and execute trades regarding alternative investments. These firms monitor the estimated valuations based upon receipt and review relevant financial data and periodic independent audits. The estimated market values are forwarded to the Plan's custodian financial institution on a monthly or quarterly basis. These market values are updated by the Plan's custodian. These updated values are included within these financial statements.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

H. INVESTMENT CREDIT QUALITY

The following information presents disclosures of custodial credit risk, credit risk, and interest rate risk as outlined by GASB Statement NO. 40, Deposit and Investment Risk Disclosures. The disclosures are included to inform financial statement users of the investment risks that could affect the Plan's ability to meet its obligations. The Plan's Board mitigates custodial credit risk by having the custodian hold securities in the Plan's name as a requirement of the custody contract, the Plan's investment policy as adopted by the board, provides the performance objectives, asset allocation guidelines and overall investment guidelines.

Cash on Deposit

As of December 31, 2018, the Plan's cash balances in bank accounts totaling \$5,938,661. The account exceeded the FDIC insurance limit by \$5,688,661. The account is on deposit with the Plan's investment custody bank. Daily cash balances in the cash reserve account are typically significantly lower than the year-end balance. Additionally, the Plan has not experienced any losses due to bank failure and does not believe it is exposed to any significant credit risk relating to its cash balance.

Concentration of Credit Risk

Concentration of credit risk is defined as the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification. This form of risk arises when an entity has one or more concentrated investments in a single issuer. The Plan's investment policy limits the concentration in any one issuer to 5% of fair value. At December 31, 2018 the Plan had exposure of less than 5% in any single investment issuer.

Custodial Credit Risk

Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form required by the Securities and Exchange Commission. At December 31, 2018, the Plan was not exposed to custodial credit risk. The Plan has no investment policy regarding custodial credit risk.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2018 the Plan's fixed income securities were managed only in commingled or pooled accounts.

The Plan has no investment policy regarding credit risk on fixed income commingled or pooled accounts. Obligations guaranteed or explicitly guaranteed by the U.S. Government are not considered to have credit risk. The Plan's investment policy provides that fixed income securities may include U.S. Treasury obligations, obligations of government sponsored enterprises, federal agency obligations, corporate bonds, debentures, asset backed securities, convertible securities, preferred stock commercial paper, and commercial bank certificates of deposit. All investments in interest-bearing nonconvertible obligations of corporations must be rated within the six highest ratings of a major rating service at the time of purchase (minimum B or higher).

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. At December 31, 2018, the Plan had the following investments in long-term debt securities.

| <u>Investment Category</u> | <u>Market Value</u> | <u>Effective Life Not Available</u> | <u>Effective Life Less Than 1 Year</u> | <u>Effective Life 1-5 Years</u> | <u>Effective Life 6-10 Years</u> | <u>Effective Life Over 10 Years</u> |
|----------------------------|---------------------|-------------------------------------|--|---------------------------------|----------------------------------|-------------------------------------|
| Corporate Bonds | \$2,248 | \$ 31 | \$ - | \$ - | \$ - | \$ 2,217 |

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's investment policy restricts equity investments to securities that are U.S. dollar denominated and are registered with the SEC. The Plan had no investments allocated in foreign currencies in non-pooled accounts of either fixed-income or equity managers.

I. TREND INFORMATION

Trend information, which gives an indication of the progress made in accumulating sufficient assets to pay pension benefits when due, are presented in the following required supplementary information section of this report.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

Continued,

J. COST-OF-LIVING BENEFITS

Historically, the Board of Trustees had adopted the policy of maintaining a "Cost of Living Account" representing a "reserve" to provide for cost of living payments to retirees and beneficiaries from excess realized investment earnings. In the January 1, 1996 and prior actuarial valuations, this reserve was used as an offset to assets in developing the actuarial value of assets. Beginning with the January 1, 1997 and in subsequent actuarial valuations, this reserve was included with other actuarial liabilities presented in the plan actuary's report.

Effective with the January 1, 2007 actuarial valuation, the Board eliminated the inclusion of this "reserve" in the system actuarial liabilities in favor of the direct demonstration of the amount available for cost of living payments as described below. The "reserve" was intended to represent the amount available for such cost of living payments pursuant to Section 114-204 (7) of the New Orleans Code governing Plan benefits.

The Board has adopted a revised policy of determining the amount available pursuant to the foregoing section as follows. The Board has made the interpretation that "interest earnings" represents cumulative market-to-market investment performance of the fund and that "in excess of an average 3.5 percent" means cumulative investment performance in excess of 3.5% compounded annually. The plan's actuary's report reflects cumulative investment performance of 3.5% compounded annually would have resulted in total system assets of \$2,640,527 as of December 31, 2017 based on the assumption that there had not been any cost of living payments during the 29-year period considered. Actual fund performance during the 29-year period considered resulted in a market value of \$391,827,316 after recognition of the cost of living payments actually made.

K. COSTS OF PLAN ADMINISTRATION

The City of New Orleans absorbs significant costs of the Plan's administration. Those costs include salaries, fixed assets, office supplies etc. for the department managing System operations. However, there are administrative expenses paid by the Plan that are associated with travel, conferences for Board members, attorney fees, investment consultants and actuary fees.

L. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

M. SETTLED ARBITRATION

The Plan reached an arbitrated consent agreement with the City of New Orleans (the City) related to the Plan's claim that employer contributions from the City were not fully funded as required by the Actuary's report for certain years past. The settlement requires the City to pay the Plan a total of \$4 million, payable in sixty (60) consecutive monthly pension payments of \$66,666 through December 2024. However, the City's future budgetary considerations could impact the timing of the regular installments.

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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N. 5 – YEAR ACTUARIAL STUDY

The Plan engaged an independent actuary firm to perform a study of the Plan's actuarial assumptions and related matters with a 5-year look-back period. The study was issued on April 8, 2018. The study offered several recommendations that could impact the Plan's funding status if implemented in the future. No decisions have been made regarding the recommendations as of the date of the is audit report.

O. SUBSEQUENT EVENTS

Management evaluated subsequent events as of June 17, 2019, which was the date these financial statements were available to be issued. Management has noted that there are no additional adjustments or disclosures required related to these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE CITY OF NEW ORLEANS EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY
 FOR THE YEAR ENDED DECEMBER 31, 2018

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Total Pension Liability | | | | | |
| Service cost | \$ 9,107,643 | \$ 9,447,990 | \$ 9,062,738 | \$ 8,164,544 | \$ 7,231,227 |
| Interest cost at 7.50% | 46,037,729 | 45,680,973 | 42,201,480 | 40,513,176 | 40,840,178 |
| Changes of benefit terms | (437,937) | - | - | - | - |
| Difference between expected and actual experience | 23,954,158 | 13,756,022 | 43,807,817 | 20,288,669 | (11,566,812) |
| Changes of assumptions | - | - | - | - | - |
| Benefit payments and net transfers | (50,075,418) | (48,198,171) | (48,678,803) | (46,455,662) | (40,864,625) |
| Net change in total pension liability: | <u>28,586,175</u> | <u>20,686,814</u> | <u>46,393,232</u> | <u>22,510,727</u> | <u>(4,360,032)</u> |
| Total pension liability - beginning | 629,766,451 | \$ 609,079,637 | 562,686,405 | 540,175,678 | 544,535,710 |
| Total pension liability - ending | <u>658,352,626</u> | <u>\$ 629,766,451</u> | <u>\$ 609,079,637</u> | <u>\$ 562,686,405</u> | <u>\$ 540,175,678</u> |
| Plan fiduciary net position | | | | | |
| Contributions - employer | \$ 31,572,422 | \$ 27,169,921 | \$ 27,304,527 | \$ 22,447,281 | \$ 20,306,887 |
| Contributions - member | 8,246,577 | 7,677,009 | 7,444,419 | 6,490,092 | 6,193,573 |
| Net investment income | (15,589,616) | 51,906,523 | 28,611,585 | (14,044,748) | 12,930,693 |
| Benefit payments and net transfers | (50,075,418) | (48,198,171) | (48,678,803) | (46,455,662) | (40,864,625) |
| Administrative expense | (243,972) | (337,564) | (170,780) | (88,383) | (272,072) |
| Net change in plan fiduciary net position: | <u>(26,090,007)</u> | <u>38,217,718</u> | <u>14,510,948</u> | <u>(31,651,420)</u> | <u>(1,705,544)</u> |
| Plan fiduciary net position - beginning | 391,827,316 | 353,609,598 | 339,098,650 | 370,750,070 | 372,455,614 |
| Plan fiduciary net position - ending | <u>365,737,309</u> | <u>391,827,316</u> | <u>353,609,598</u> | <u>339,098,650</u> | <u>\$ 370,750,070</u> |
| Net pension liability - ending: | <u>\$292,615,317</u> | <u>\$ 237,939,135</u> | <u>\$ 255,470,039</u> | <u>\$ 223,587,755</u> | <u>\$ 169,425,608</u> |
| Plan fiduciary net position as a percentage of the total pension liability: | 55.55% | 62.22% | 58.06% | 60.26% | 68.64% |
| Covered-employee payroll in year ending 12/31/2016 | 128,530,078 | 120,808,711 | 115,504,517 | 105,691,915 | 97,243,871 |
| Net pension liability as a percentage of covered-employee payroll: | <u>227.66%</u> | <u>196.96%</u> | <u>221.18%</u> | <u>211.55%</u> | <u>174.23%</u> |

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

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF SYSTEM'S CONTRIBUTIONS
DECEMBER 31, 2018

| Year | Actuarially Determined Contribution | Contributions in Relation to the Actuarially Determined Liability | Contribution (Deficiency) /Excess | Covered Employee Payroll | Contributions as a Percentage of Covered Payroll |
|------|---|---|---|-----------------------------|---|
| 2009 | 17,066,353 | 12,614,236 | 4,452,117 | 89,366,260 | 14.12% |
| 2010 | 21,281,308 | 13,031,810 | 8,249,498 | 85,926,577 | 15.17% |
| 2011 | 20,850,837 | 19,917,899 | 932,938 | 93,636,301 | 21.27% |
| 2012 | 18,828,387 | 19,010,841 | (182,454) | 92,881,497 | 20.47% |
| 2013 | 20,228,129 | 18,544,682 | 1,683,447 | 92,440,354 | 20.06% |
| 2014 | 20,871,424 | 20,306,887 | 564,537 | 97,243,872 | 20.88% |
| 2015 | 21,891,996 | 22,447,281 | (555,285) | 105,691,915 | 21.24% |
| 2016 | 22,713,296 | 27,304,527 | (4,591,231) | 115,504,517 | 23.64% |
| 2017 | 26,857,512 | 27,169,921 | (312,409) | 120,808,711 | 22.49% |
| 2018 | 28,015,495 | 31,065,227 | (3,049,732) | 128,530,078 | 24.17% |
| 2019 | 28,689,759 | | | | |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
SCHEDULE OF INVESTMENT RETURNS
DECEMBER 31, 2018

| <u>Year</u> | <u>Annual Money- Weighted Rate of Return</u> |
|-------------|--|
| 2008 | -30.18% |
| 2009 | 23.13% |
| 2010 | 14.11% |
| 2011 | -1.30% |
| 2012 | 11.56% |
| 2013 | 15.17% |
| 2014 | 4.17% |
| 2015 | -3.88% |
| 2016 | 8.62% |
| 2017 | 8.52% |
| 2018 | 5.57% |

THE EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2018

1. SCHEDULE OF CHANGES IN NET PENSION LIABILITY:

The total pension liability contained in this schedule was provided by the Plan's actuary. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Plan.

2. SCHEDULE OF EMPLOYERS' NET POSITION LIABILITY:

The schedule of employers' net pension liability shows the percentage of the Plan's employer 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 Plan. Covered employee payroll is the payroll of all employees that are provided with benefits through the Plan.

3. SCHEDULE OF CONTRIBUTIONS - EMPLOYER AND NON-EMPLOYER CONTRIBUTING ENTITIES:

The difference between the actuarially determined contributions from employer and non-employer contributing entities and the percentage of employer contributions received to covered employee payroll is presented in this schedule.

4. SCHEDULE 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 using monthly inputs with expenses measured on an accrual basis.

5. ACTUARIAL ASSUMPTIONS:

The information presented in the required supplementary schedules was used on 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 Plan's Board. Additional information on the assumptions and methods used as of the latest actuarial valuation are noted in Note C, Net Pension Liability of Employers.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2018

SUMMARY OF AUDITORS' RESULTS

Financial Statements

An unmodified opinion was issued on the financial statements of the auditee.

Internal Control Over Financial Reporting:

Material weakness(es) identified? yes no
Significant deficiency(s) identified
not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards (**Not Applicable**)



Luther Speight & Company
Certified Public Accountants and Consultants

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

To the Honorable Mayor and City Council
City of New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Employees' Retirement System of the City of New Orleans (the Plan), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements and have issued our report thereon dated June 7, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. The finding is listed as 2018-01.

Continued,

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Plan's Response to Findings

The Plan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



New Orleans, Louisiana

June 7, 2019

SCHEDULE OF FINDINGS AND RESPONSES

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2018**

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

FINDING 18-01: PLAN ACCOUNTING PROCEDURES DO NOT PROVIDE FOR RECONCILIATION OF THE GENERAL LEDGER TO THE INVESTMENTS TRUST STATEMENTS FOR CERTAIN TRANSACTION TYPES.

CRITERIA:

Governmental accounting best practices require that financial statements be supported by general ledgers that include detail transactions and subsidiary ledgers to support financial statement preparation and an adequate audit trail.

CONDITION:

The Plan's accounting system relies heavily on the investment custodian and their related trust statement for detail transaction postings. The trustee processes four (4) transaction types;

- Investment transactions
- Retiree benefit payments
- Vendor payments
- Cash transfers

Generally, the Plan's general ledger includes summary transaction totals based upon the trust statement's detail transactions. This approach appears practicable for the investment transactions and retiree benefit payments, based upon their voluminous nature and respective internal control environments that include a high level of systematic controls at the trustee level, subject to overall reconciliation between the general ledger and the trust statement by the Plan.

However, the vendor payments and cash transfers processed by the Plan through the trustee's system are subject to internal control procedures that appear to rely more upon the Plan's internal control environment and procedures. Accordingly, Plan's general ledger should include detail transaction postings for each vendor payment and cash transfer executed by the Plan.

EFFECT:

The Plan's general ledger does not include sufficient transaction detail related to certain transaction types. Management review and monitoring controls over transaction processing vendor payments and cash transfers are adversely affected.

RECOMMENDATION:

We recommend that the Plan enhance its general ledger accounting procedures to include detailed transaction postings for vendor payments and cash transfers.

MANAGEMENT RESPONSE:

Management's response will be provided under separate cover.

**THE EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF NEW ORLEANS
DECEMBER 31, 2018**

STATUS OF PRIOR YEAR FINDINGS

FINDING 17-01: PLAN'S DUE DILIGENCE PROCEDURES FOR ALTERNATIVE INVESTMENTS NOT ADEQUATE

CONDITION:

Our examination disclosed that the Plan's portfolio included investments with 20 fund managers in the alternative strategies. We noted that one (1) of the managers had not submitted independent audit reports for the years 2014, 2015, 2016 or 2017. Further examination indicated that the Plan requested partial liquidation of the manager's investment account and return of the proceeds during 2014. The Plan received \$2.1 million as a partial liquidation in January 2014 and had not received further funds since that time. This manager held Plan securities valued at \$3.8 million as of December 31, 2017.

Alternative investments represent a variety of investment strategies, however the underlying securities are not in the custody of the Plan's trustee financial institution. In addition, the market valuations for these securities are not based upon published values. Accordingly, the Plan's investments in the alternative category bear a higher risk.

RECOMMENDATION:

We recommend that the Plan escalate its due diligence procedures in instances where alternative investment managers do not comply with annual independent audit requirements. Specific measures should be implemented where warranted by the circumstances.

MANAGEMENT'S RESPONSE:

The retirement system along with its investment consultant has participated in a series of communications with the subject manager. In those discussions, the manager indicates that they have engaged an audit firm to complete a full audit for 2017. Once this audit becomes available, the retirement system along with its investment consultant will review the audit investment thoroughly to determine if an adjustment to the current value is warranted.

STATUS:

The investment manager has not submitted an independent audit report to Plan management. The Plan's board continues to evaluate the valuation of the investment. Management has not adjusted the investment valuation as of the 2018 audit report issuance date.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NEW ORLEANS
 SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
 PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER
 DECEMBER 31, 2018

Agency Head Name: Jesse Evans, Jr.

| Purpose | Amount |
|--|---------------|
| Salary | \$92,846 |
| Benefits-insurance | 6,833 |
| Benefits-retirement | 0 |
| Benefits-other | 833 |
| Car allowance | 0 |
| Vehicle provided by government | 0 |
| Per diem | 0 |
| Reimbursements | 0 |
| Travel | 0 |
| Registration fees | 0 |
| Conference travel | 0 |
| Continuing professional education fees | 183 |
| Housing | 0 |
| Unvouchered expenses* | 0 |
| Special meals | 0 |
| | |

Served as Director of City of New Orleans Employees' Retirement System from January 1, 2018 through December 31, 2018.



Luther Speight & Company
Certified Public Accountants and Consultants

**EMPLOYEES' RETIRMENT SYSTEM
OF THE CITY OF NEW ORLEANS**

**AGREED-UPON PROCEDURES REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

New Orleans Office: 1100 Poydras Street, Suite 1225/New Orleans, LA 70163/(504)561-8600
Memphis Office: 119 S. Main Street, Suite 500/Memphis, TN 38103/(901)322-4238
Atlanta Office: Five Concourse Pkwy/Atlanta, GA 30328/(770)399-8808



Luther Speight & Company
Certified Public Accountants and Consultants

Independent Accountant's Report
On Applying Agreed-Upon Procedures

To the Members of the Board of Trustees and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by the Employees' Retirement System of the City of New Orleans and the Louisiana Legislative Auditor (LLA) on the control and compliance areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the year ended December 31, 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 representations 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 performed and the associated findings are listed below. The procedure is stated first, followed by the result of the procedures presented in italics. If the entire section is not applicable it is noted at the section level.

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget

Auditor Comment: Budgeting procedures were adequately documented.

- b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

Auditor Comment: Purchasing policies were adequately documented, which included a detailed list of Procurement Procedures.

- c) **Disbursements**, including processing, reviewing, and approving.

Auditor Comment: Disbursement procedures were adequately documented.

- d) **Receipts**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

Auditor Comment: Receipts procedures were adequately documented.

- e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Auditor Comment: N/A. Employees of the System are employed by and paid by the City.

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

Auditor Comment: Investment manager and non-investment manager contracting procedures were adequately documented.

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage

Auditor Comment: N/A. The System has no credit or debit cards issued.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Auditor Comment: Travel procedures are adequately documented.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.

Auditor Comment:

The Ethics requirements are adequately documented.

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

Auditor Comment:

N/A. The System has no debt.

Board or Finance Committee

Auditor Comment: *We noted no findings for the year ended December 31, 2017. Therefore, we determined this section was not necessary for the year ended December 31, 2018.*

Bank Reconciliations

2. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

Auditor Comment: *List of bank accounts and management's representation were obtained. We noted the System only has one bank account.*

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

Auditor Comment: *We noted that the Plan had one bank account. The bank and book balances properly reconciled with no reconciling items noted.*

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

***Auditor Comment:** The bank reconciliation did not show signed evidence of review by a member of management.*

***Management Response:** Each bank reconciliation will be reviewed and signed by the Plan Manager on monthly basis.*

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

***Auditor Comment:** No reconciling items noted. See response at 2a) above.*

Collections

- 3. Obtain 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. Randomly select 5 deposit sites (or all deposit sites if less than 5).

***Auditor Comment:** A listing of all collection locations was received from management and confirmed as complete.*

- 4. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

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

***Auditor Comment:** The System employees do not share cash drawers.*

- 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.

Auditor Comment: We noted adequate segregation of duties for collection and deposit procedures.

- 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.

Auditor Comment: We noted adequate segregation of duties for collection and deposit procedures.

- 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.

Auditor Comment: We noted adequate segregation of duties for collection and deposit procedures.

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

Auditor Comment: We noted that all employees were bonded; however the level of coverage does not appear adequate considering the size and liquidity of the fund. Adequate segregation of duties regarding cash receipts exist. No sharing of computers or logins were noted regarding the cash receipt function.

Management Response: Management will review the current bonding level for each employee and determine if coverage limits require increase. The System board will be advised of the results of our review.

6. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

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

Auditor Comment: No findings noted.

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

Auditor: No findings noted.

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

Auditor Comment: No findings noted.

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Auditor Comment: Per review of the check log and deposit support, it was noted that deposits are made greater than one business day after receipt of checks.

Management Response: The deposit of checks requires a physical visit to the bank and there have been occasions where the deposit was made more than one business day after receipt. To resolve that problem, beginning in June of 2019 we began using a bank product which allows us to scan and send checks to our bank for deposit. This should resolve the lag period between receipt and deposit of checks.

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

Auditor Comment: No findings noted

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

Auditor Comment: We noted no findings for the year ended December 31, 2017. In addition, we noted that disbursement procedures did not change since then. Therefore, we determined this section was not necessary for the year ended December 31, 2018.

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

Auditor Comment: *We noted the System does not maintain any credit or debit cards. This section is not applicable for the year ended December 31, 2018.*

Travel and Expense Reimbursement

7. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

Auditor Comment: *List of travel expenses and reimbursements and management's representation were received.*

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Auditor Comment: *We did not note any per diems received related to our sample items examined.*

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

Auditor Comment: *All costs were supported by itemized receipts with no exception.*

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

Auditor Comment: *Business purpose was documented for each transaction in the sample.*

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Auditor Comment: *No findings noted.*

Contracts

Auditor Comment: We noted no findings for the year ended December 31, 2017. In addition, we noted that contract procedures did not change since then. Therefore, we determined this section was not necessary for the year ended December 31, 2018.

Payroll and Personnel

Auditor Comment: The System employees are paid through the City of New Orleans and no salary expense is recorded for the System. Therefore, this section is not applicable for the year ended December 31, 2018.

Ethics

Auditor Comment: We noted no findings for the year ended December 31, 2017. In addition, we noted that personnel procedures did not change since then. Therefore, we determined this section was not necessary for the year ended December 31, 2018.

Debt Service

Auditor Comment: The System had no debt as of the year ended December 31, 2018. Therefore, this section is not applicable

Other

8. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Auditor Comment: Management confirmed that the System had no misappropriations of public funds during the year ended December 31, 2018.

9. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

Auditor Comment: We noted no mention of the Revised Statute on the System's website nor were any posted signs observed on the premises. However, the System's offices are housed in City Hall and posted signs were noted in other areas of the building. Also, the City's website has a link to report fraud.

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 conclusions, 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.



Luther Speight & Company CPAs
New Orleans, LA
June 7, 2019