

---

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (unaudited)	3 – 5
<b><u>Financial Statements</u></b>	
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 13
<b><u>OTHER SUPPLEMENTAL INFORMATION</u></b>	
Schedule of Compensation, Benefits and Other Payments to Chief Executive Officer	14
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 – 16



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax - 225-922-4611

A Professional Accounting Corporation

## INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of December 31, 2017 and 2016, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' 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 audits 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 auditors' 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Postlethwaite & Netterville

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Accident and Health Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer – Act 706 included on page 14, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates 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 schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report on pages 15 and 16, dated June 20, 2018, on our consideration of the Fund's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*  
Baton Rouge, Louisiana  
June 20, 2018

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Effective January 1, 2013, the Fund converted its health insurance program from a self-funded program to a fully insured sponsored plan through Blue Cross Blue Shield of Louisiana. The financial statements for the years ended December 31, 2017 and 2016 include only operations for dental coverage which the Fund insures.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2017 by \$1,985,086 compared to the Funds assets exceeding its liabilities by \$1,926,136 as of December 31, 2016.
- The Fund's assets totaled \$2,020,597 and \$1,959,395 at December 31, 2017 and 2016, respectively, which consisted primarily of cash and cash equivalents.
- The Fund reported gross premiums earned of \$291,977 and \$296,346 during the years ended December 31, 2017 and 2016, respectively.
- The Fund reported an increase in net position of \$58,950 during the year ended December 31, 2017 compared to an increase in net position of \$26,507 during the year ended December 31, 2016.

**Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine profitability, credit worthiness, and whether the Fund has successfully recovered all its costs through its premium and investment income. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Position**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total assets	\$ 2,020,597	\$ 1,959,395
Deferred outflows	-	-
Total liabilities	35,511	33,259
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,985,086</u>	<u>\$ 1,926,136</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31:**

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 291,977	\$ 296,346
Operating expenses	<u>234,027</u>	<u>270,818</u>
Operating income	57,950	25,528
Non-operating income	<u>1,000</u>	<u>979</u>
Change in net position	<u>\$ 58,950</u>	<u>\$ 26,507</u>

The Fund experienced an excess of revenues over expenses in the amount of \$57,950 for the current year resulting primarily from a decrease in operating expenses, primarily in claims expenses. During the year ended December 31, 2016, the Fund experienced an excess of revenues over expenses of \$25,528 due to an increase in premiums over the prior period. During the year ended December 31, 2017, the Fund reported premium income of \$291,977 and investment income of \$1,000. During the year ended December 31, 2017, the Fund reported total expenses of \$234,027, which consisted primarily of claims expense. Claims expense incurred during the years ended December 31, 2017 and 2016 represented 62% and 72% of premium income, respectively.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Accident and Health Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents (note 4)	\$ 2,001,095	\$ 1,957,127
Prepays	2,785	-
Accounts receivable, net	<u>16,717</u>	<u>2,268</u>
Total assets	2,020,597	1,959,395
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 2,020,597</u>	<u>\$ 1,959,395</u>
Liabilities:		
Unpaid claims liability (note 3)	\$ 32,100	\$ 29,800
Due to affiliates (note 2)	<u>3,411</u>	<u>3,459</u>
Total liabilities	35,511	33,259
Deferred inflows	-	-
Net position	<u>1,985,086</u>	<u>1,926,136</u>
Total liabilities, deferred inflows, and net position	<u>\$ 2,020,597</u>	<u>\$ 1,959,395</u>

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 291,977	\$ 296,346
Total operating revenues	291,977	296,346
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	179,672	214,777
Service agent fees (note 2)	41,436	42,006
Administrative fees (note 2)	3,600	3,600
Professional fees	9,319	10,435
Total operating expenses	234,027	270,818
<b><u>OPERATING INCOME</u></b>	57,950	25,528
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	1,000	979
<b><u>CHANGE IN NET POSITION</u></b>	58,950	26,507
 <b>NET POSITION - BEGINNING OF YEAR</b>	 1,926,136	 1,899,629
<b>NET POSITION - END OF YEAR</b>	\$ 1,985,086	\$ 1,926,136

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Operating income	\$ 57,950	\$ 25,528
Adjustments to reconcile operating income to net cash provided by operations:		
Change in accounts receivables	(14,449)	2,327
Change in prepaid expenses	(2,785)	-
Change in unpaid claims liability	2,300	2,800
Net cash provided by operating activities	43,016	30,655
Cash flows from investing activities:		
Investment interest received	1,000	979
Net cash provided by investing activities	1,000	979
Cash flows from financing activities:		
Change in due to affiliates	(48)	(39)
Net cash used in financing activities	(48)	(39)
Net change in cash	43,968	31,595
Cash, beginning of year	1,957,127	1,925,532
Cash, end of year	\$ 2,001,095	\$ 1,957,127

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of accident and health, workers' compensation, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The Accident and Health Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. The Fund offers dental coverage to its members. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

The Fund pays LMA administrative fees of \$300 per month. The Fund also pays service agent fees to RMI for dental claims (see note 2).

As of December 31, 2017 and 2016, there were 36 and 37 participating municipalities in the Fund with a total number of participants of 991 and 1,146, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(b) ***Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements. Since the business of the Fund is essentially that of an insurance company, having a business cycle greater than one year, the statements of net position are not presented in a classified format.

(c) ***Net Position***

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) ***Premium Income and Accounts Receivable***

Premiums are recognized as income over the term of the policies as they become earned on a pro-rata basis. Any adjustments to premiums are considered to be a change in estimate and are recognized in the year they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) ***Operating / Non-Operating Revenue and Expense***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses, which are ancillary to the Fund's statutory purpose, are classified as non-operating.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***(f) Unpaid Claims Liability***

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claims amounts in the financial statements.

***(g) Cash and Cash Equivalents***

For the purposes of the statements of cash flows, cash includes amounts in demand deposit accounts with banks, and money markets and repurchase agreements, which are usually purchased with maturities of 90 days or less or are reinvested continuously.

***(h) Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

***(i) Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

RMI provides services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fee incurred by the Fund for these services and the related balance owed is as follows:

	2017	2016
Expenses and current fee structure:		
Service agent fees – RMI (for dental participant - \$3.00 2017 and 2016)	\$ 41,436	\$ 42,006
Administrative fees – LMA	\$ 3,600	\$ 3,600
Due to RMI	\$ 3,411	\$ 3,459

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31:

	2017	2016
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 30	\$ 27
Incurred claims and claims adjustment expense-provision for insured events	180	215
Less payments – claims and claims adjustment expenses	(178)	(212)
Unpaid claims and claims adjustment expenses liability, end of year	\$ 32	\$ 30

**4. CASH AND CASH EQUIVALENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2017 and 2016. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**

4. **CASH AND CASH EQUIVALENTS** (continued)

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions.

Net investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest income	<u>\$ 1,000</u>	<u>\$ 979</u>

5. **SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 20, 2018 and determined that no subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**  
**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2017**

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by Agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

\*\*No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax -

A Professional Accounting Corporation

**INDEPENDENT AUDITORS' 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**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund  
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of December 31, 2017, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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



Postlethwaite & Netterville

### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 20, 2018

---

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Unaudited)	3 - 5
 <b><u>Financial Statements</u></b>	
Statements of Net Position	6
Statements of Revenues, Expenses and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 18
 <b><u>Required Supplemental Information</u></b>	
Schedule Of Ten-Year Claims Development Information	19
 <b><u>Other Supplemental Information</u></b>	
Schedule of Compensation, Benefits and Other Payments to Chief Executive Officer	20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 - 22



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax - 225-922-4612

A Professional Accounting Corporation

## INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' 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 audits 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 auditors' 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Public Liability Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Postlethwaite & Netterville

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 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 opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Public Liability Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates 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 schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Fund's internal control over financial reporting and compliance.

Baton Rouge, Louisiana  
June 20, 2018

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2017 by \$9,012,468 compared to \$5,962,579 as of December 31, 2016, which is a 51% increase.
- At December 31, 2017, the Fund's assets totaled \$26,509,362, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2016, the Fund's assets totaled \$25,116,366 and consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable.
- The Fund reported earned premiums of \$11,588,824 and \$11,740,623 during the years ended December 31, 2017 and 2016, respectively.
- Net position increased by \$3,049,889 and by \$730,417 during the years ended December 31, 2017 and 2016, respectively.
- At the end of the current fiscal year, the Fund's net position totaled \$9,012,468, or 102% of current year expenses.

**Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements also provide the basis for computing rate of return, evaluating the capital structure of the Fund, and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates, as well as the differences in actual results and estimated amounts, will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Position of the Fund and changes in them. The net position (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Position at December 31:**

	<u>2017</u>	<u>2016</u>
Total assets	\$ 26,509,362	\$ 25,116,366
Deferred outflows	-	-
Total liabilities	17,496,894	19,153,787
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 9,012,468</u>	<u>\$ 5,962,579</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 6% primarily as assets supporting loss reserves increase and increase in net position. Total liabilities decreased approximately 8.7% over prior year as a result of the decrease in the unpaid claims liability.

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31:**

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 11,588,824	\$ 11,740,623
Operating expenses	<u>8,868,220</u>	<u>11,232,593</u>
Operating income	2,720,604	508,030
Non-operating income	<u>329,285</u>	<u>222,387</u>
Change in net position	<u>\$ 3,049,889</u>	<u>\$ 730,417</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

During the year ended December 31, 2017, the Fund reported premium revenues of \$11,588,824 and investment income of \$329,285. Investment income earned during 2017 increased slightly compared to 2016 due to favorable changes in the values of the Fund's investment portfolio. The Fund reported total expenses of \$8,868,220, which consisted primarily of claims, reinsurance premiums, and administrative and service agent fees. During 2016, the Fund reported premium income of \$11,740,623 and total expenses of \$11,232,593, which were similar in make-up to 2017. Expenses decreased from 2016 primarily as a result of lower claims expenses resulting from decreases in claims incurred during the current policy year as well as decreased unfavorable development from prior year claims. The Fund's net position increased \$3,049,889 during 2017 and \$730,417 during 2016. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Public Liability Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 4,847,788	\$ 3,107,917
Investments (note 4)	18,959,560	18,641,338
Accounts receivable, net	545,408	422,953
Reinsurance receivable (note 3)	242,399	954,098
Deductibles receivable	117,796	148,355
Due from affiliates - net (note 2)	1,704,893	1,759,035
Accrued interest receivable	<u>91,518</u>	<u>82,670</u>
Total assets	<u>\$ 26,509,362</u>	<u>\$ 25,116,366</u>
Deferred outflows	-	-

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 14,931,000	\$ 16,373,000
Unearned premiums	2,560,662	2,748,957
Due to affiliates - net (note 2)	-	26,687
Accrued expenses	<u>5,232</u>	<u>5,143</u>
Total liabilities	17,496,894	19,153,787
Deferred inflows	-	-
Net position	<u>9,012,468</u>	<u>5,962,579</u>
Total liabilities, deferred inflows, and net position	<u>\$ 26,509,362</u>	<u>\$ 25,116,366</u>

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 11,588,824	\$ 11,740,623
Total operating revenues	<u>11,588,824</u>	<u>11,740,623</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	5,349,224	7,765,398
Reinsurance premiums (note 2)	1,918,336	1,943,464
Administrative fees (note 2)	666,357	675,085
Service agent fees (note 2)	782,246	792,492
Bad debt expense	37,252	-
Miscellaneous	114,805	56,154
Total operating expenses	<u>8,868,220</u>	<u>11,232,593</u>
<b><u>OPERATING INCOME</u></b>	2,720,604	508,030
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>329,285</u>	<u>222,387</u>
<b><u>CHANGE IN NET POSITION</u></b>	<u>3,049,889</u>	<u>730,417</u>
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>		
	<u>5,962,579</u>	<u>5,232,162</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 9,012,468</u>	<u>\$ 5,962,579</u>

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Operating income	\$ 2,720,604	\$ 508,030
Adjustments to reconcile operating income to net cash used in operations:		
Bad debt expense	37,252	-
Change in receivables	573,703	374,593
Change in unpaid claims liability	(1,442,000)	600,000
Change in accrued expenses, unearned premiums and due to affiliates	(160,751)	(35,958)
Net cash provided by operating activities	1,728,808	1,446,665
Cash flows from investing activities:		
Purchases of investments	(7,360,778)	(7,280,244)
Proceeds from sales and maturities of investments	6,846,772	6,749,596
Investment income received	525,069	532,737
Net cash provided by investing activities	11,063	2,089
Net change in cash	1,739,871	1,448,754
Cash, beginning of year	3,107,917	1,659,163
Cash, end of year	\$ 4,847,788	\$ 3,107,917

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2017 and 2016, there were 210 and 222 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance enterprise having a business cycle greater than one year, the statements of net position are not presented in a classified format.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Net Position***

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

**(d) *Investments***

Investments are reported at estimated fair value except for short term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long term purposes.

**(e) *Premium Income and Receivables***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable, reinsurance receivable, and deductibles receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

**(f) *Operating/Non-Operating Revenue and Expense***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) *Unpaid Claims Liability***

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. The Fund includes unallocated loss adjustment expenses in its reserve valuation process.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

**(h) *Statements of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks.

**(i) *Excess Reinsurance***

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events (see notes 2 and 5). Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

**(j) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*(k) Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

*(l) Use of Estimates*

Certain reclassifications have been made to the 2017 financial statements in order to conform with the current year presentation.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of premiums earned and earned normal premiums (ENP) for the years ended December 31, 2017 and 2016, respectively. The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	<u>2017</u>	<u>2016</u>
Expenses (and current fee structure):		
Administrative fee – LMA 5.75% of earned premium	\$ <u>666,357</u>	\$ <u>675,085</u>
Service agent - RMI 6.75% of earned premium	\$ <u>782,246</u>	\$ <u>792,492</u>
Reinsurance premium – LMRFA 16.55% of earned premium	\$ <u>1,918,336</u>	\$ <u>1,943,464</u>
Reinsurance recoveries from LMRFA	\$ <u>1,635,131</u>	\$ <u>2,431,407</u>
Due (to) from affiliates:		
LMA	\$ (36,669)	\$ (30,312)
RMI	(221,959)	(139,088)
LMRFA	<u>1,930,099</u>	<u>1,928,435</u>
	\$ <u>1,671,471</u>	\$ <u>1,759,035</u>

Additionally, as of December 31, 2017 there is \$33,422 due from an affiliate and as of December 31, 2016 there is \$26,687 due to an affiliate.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 30,357	\$ 29,441
Less: Reinsurance recoverables	<u>13,984</u>	<u>13,668</u>
Liability for unpaid losses at beginning of year, net	<u>16,373</u>	<u>15,773</u>
Net incurred related to:		
Current year	5,100	6,868
Prior years	<u>249</u>	<u>897</u>
Total incurred	<u>5,349</u>	<u>7,765</u>
Net paid related to:		
Current year	643	719
Prior years	<u>6,148</u>	<u>6,446</u>
Total paid	<u>6,791</u>	<u>7,165</u>
Liability for unpaid losses at end of year, gross	28,048	30,799
Less: Reinsurance recoverables	<u>13,117</u>	<u>14,426</u>
Liability for unpaid losses at end of year, net	<u>\$ 14,931</u>	<u>\$ 16,373</u>

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$242,399 and \$954,098 of paid claims which are recoverable from the reinsurer at December 31, 2017 and 2016, respectively.

During 2017 and 2016, the Fund experienced unfavorable development of prior year estimated loss reserves. However, for 2017 and 2016, favorable development was experienced on a gross basis before excess insurance. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2017 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2017, will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for each of December 31, 2017 and 2016, based on the Fund's anticipated payout patterns and discount rate assumptions of 3.0%, which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$983,000 and \$1,047,000 at December 31, 2017 and 2016, respectively.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2017 and 2016.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund policy is to wire transfer cash as needed from investments to support disbursements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2017 and 2016:

<u>Investment Type</u>	<u>2017</u>		<u>2016</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 5,442,728	\$ 5,479,785	\$ 5,388,705	\$ 5,392,733
U.S. Agency debt obligations	12,575,025	12,670,213	12,189,433	12,243,751
U.S. Treasury bonds and	565,924	571,530	565,830	568,891
Money market funds	<u>375,883</u>	<u>375,883</u>	<u>497,370</u>	<u>497,370</u>
TOTAL	<u>\$ 18,959,560</u>	<u>\$ 19,097,411</u>	<u>\$ 18,641,338</u>	<u>\$ 18,702,745</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market accounts are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2017 and 2016.

All of the Fund's investments with the exception of money market investments are backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2017:

<u>Investment Type</u>	<u>INVESTMENT MATURITIES (in years)</u>				
	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
Money market funds	\$ 375,883	\$ 375,883	\$ -	\$ -	\$ -
U.S. Treasury bonds and notes	565,924	-	565,924	-	-
U.S. Government mortgage-backed securities	5,442,728	235	79,690	1,057,867	4,304,936
U.S. Agency debt obligations	<u>12,575,025</u>	<u>1,390,315</u>	<u>5,364,632</u>	<u>5,218,468</u>	<u>601,610</u>
	<u>\$ 18,959,560</u>	<u>\$ 1,766,433</u>	<u>\$ 6,010,246</u>	<u>\$ 6,276,335</u>	<u>\$ 4,906,546</u>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 437,835	\$ 436,028
Realized gains (losses) – net	( 32,105)	5,433
Unrealized gains (losses) arising during the year - net	( 76,445)	( 219,074)
	<u>\$ 329,285</u>	<u>\$ 222,387</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

**Fair Value**

The Fund is required by GASB 72, *Fair Value Measurement and Application*, to begin categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The implementation of this new statement did not change the method of measuring the Fund's investments at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and consisted of the following at December 31, 2017 and 2016:

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 565,924	\$ -	\$ 565,924
U.S. Government mortgage-backed securities	-	5,422,728	5,422,728
U.S. Agency debt obligations	12,575,025	-	12,575,025
Money market funds	375,883	-	375,883
	<u>\$ 13,516,830</u>	<u>\$ 5,422,728</u>	<u>\$ 18,959,560</u>

December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
U.S. Treasury bonds and notes	\$ 565,830	\$ -	\$ 565,830
U.S. Government mortgage-backed securities	-	5,388,705	5,388,705
U.S. Agency debt obligations	12,189,433	-	12,189,433
Money market funds	497,370	-	497,370
	<u>\$ 13,252,633</u>	<u>\$ 5,388,705</u>	<u>\$ 18,641,338</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants. LMRFA provides reinsurance to LMRMA Public Liability Fund with the following limits:

- Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II: Each and every loss in excess of \$100,000 in accident years prior to 2012 and \$150,000 for 2013 and future years.

Prior to 1993, Louisiana law limited the liability of the municipalities to \$500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund covers claims up to \$500,000. As of November 1, 1995, the statutory liability increased to \$750,000 from \$500,000. The Fund's coverage remains unchanged.

The following are condensed Statements of Net Position for LMRFA at December 31:

	<u>2017</u>	<u>2016</u>
Assets	\$ 54,598,297	\$ 54,695,070
Liabilities	<u>37,665,088</u>	<u>42,632,360</u>
Net Position	<u>\$ 16,933,209</u>	<u>\$ 12,062,710</u>

At December 31, 2017, the Fund included approximately \$12.7 million as recoverable from LMRFA (included in the liabilities above) which reduced liabilities for anticipated losses. The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 20, 2018 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

**REQUIRED SUPPLEMENTAL INFORMATION**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**CLAIMS EXPENSE AND ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2017**  
**(Unaudited)**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers on specific losses) incurred by the Fund as of the end of 2017 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in thousands)									
ENP and investment income	\$ 11,918	\$ 11,963	\$ 12,343	\$ 10,727	\$ 11,721	\$ 11,988	\$ 11,811	\$ 11,711	\$ 12,125	\$ 11,275
Operating costs unallocated	3,519	3,468	3,563	6,432	5,499	3,611	3,395	3,133	3,266	3,034
Estimated incurred claims and claims expense, end of policy year	5,266	7,127	6,744	7,613	7,374	8,778	6,826	6,287	6,097	5,307
Paid (cumulative) as of:										
End of policy year	643	719	686	765	838	1,084	931	920	787	954
One year later	-	2,293	2,416	2,346	2,669	2,705	2,644	2,379	2,229	3,532
Two years later	-	-	4,383	4,631	4,621	5,189	4,733	3,886	3,865	4,595
Three years later	-	-	-	5,946	6,109	6,326	5,860	4,897	4,737	6,158
Four years later	-	-	-	-	6,398	6,802	6,222	5,220	5,372	6,868
Five years later	-	-	-	-	-	7,124	6,503	5,503	5,454	7,158
Six years later	-	-	-	-	-	-	6,611	5,616	5,573	7,064
Seven years later	-	-	-	-	-	-	-	5,637	5,558	7,259
Eight years later	-	-	-	-	-	-	-	-	5,605	7,305
Nine years later	-	-	-	-	-	-	-	-	-	7,270
Estimated incurred claims and claims expense:										
End of policy year	5,266	7,127	6,744	7,613	7,374	8,778	6,826	6,287	6,097	5,307
One year later	-	6,914	7,209	7,267	7,619	8,476	7,083	6,460	6,103	8,682
Two years later	-	-	7,444	7,873	7,398	8,324	7,466	6,287	6,395	7,038
Three years later	-	-	-	7,485	7,680	7,982	7,297	6,180	6,103	7,038
Four years later	-	-	-	-	7,269	7,814	6,970	5,966	6,064	7,430
Five years later	-	-	-	-	-	7,671	7,017	5,935	5,918	7,553
Six years later	-	-	-	-	-	-	6,898	5,943	5,846	7,347
Seven years later	-	-	-	-	-	-	-	5,803	5,770	7,427
Eight years later	-	-	-	-	-	-	-	-	5,722	7,479
Nine years later	-	-	-	-	-	-	-	-	-	7,401
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(213)	700	(128)	(105)	(1,107)	72	(484)	(375)	2,094

See accompanying independent auditors' report.

**OTHER SUPPLEMENTAL INFORMATION**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**  
**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2017**

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

\*\*No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2016, and applicable guidance published by the Louisiana Legislative Auditor.



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax - 225-922-4611

A Professional Accounting Corporation

**INDEPENDENT AUDITORS' 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**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statement of financial position as of December 31, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.



Postlethwaite & Netterville

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana

June 20, 2018

---

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (Unaudited)	3 – 5
<b><u>Financial Statements</u></b>	
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 18
<b><u>Required Supplemental Information</u></b>	
Schedule of Ten-Year Claims Development Information	19
<b><u>Other Supplemental Information</u></b>	
Schedule of Compensation, Benefits, and Other Payments to Chief Executive Officer	20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 – 22

## **INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund  
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' 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 audits 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 auditors' 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Postlethwaite & Netterville

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 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 opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Workers' Compensation Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates 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 schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 20, 2018

# LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2017 by \$24,134,216 compared to \$21,176,427 as of December 31, 2016, which is a 14% increase over the previous year.
- At December 31, 2017, the Fund's assets totaled \$42,306,472, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2016 the Fund's assets totaled \$40,770,051 and consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables.
- The Fund reported gross earned premiums of \$9,996,079 and \$10,291,387 during the years ended December 31, 2017 and 2016, respectively, and an increase in net position of \$2,957,789 and \$1,930,826 during the years ended December 31, 2017 and 2016, respectively.
- At the end of the current fiscal year, the Fund's net position totaled \$24,134,216 or 133% of the Fund's liabilities. The Fund's premiums earned during 2017 were approximately 41% of its net position at December 31, 2017.

### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these basic financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses, and Changes in Net Position as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows, and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, the judicial environment, and new or changed government legislation.

**Condensed Statements of Net Position at December 31:**

	<u>2017</u>	<u>2016</u>
Total assets	\$ 42,306,472	\$ 40,770,051
Deferred outflows	-	-
Total liabilities	18,172,256	19,593,624
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 24,134,216</u>	<u>\$ 21,176,427</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 4% primarily as a result of the increases in cash and cash equivalents and in the investment portfolio. Total liabilities decreased approximately 7% mainly due to the decreases in unearned premiums due to timing and decreases in unpaid claims liabilities due to favorable development experienced. Net position increased approximately 14% from the prior year.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31:**

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 9,996,079	\$ 10,291,387
Operating expenses	<u>7,588,797</u>	<u>8,916,449</u>
Operating income	2,407,282	1,374,938
Non-operating income	<u>550,507</u>	<u>555,888</u>
Change in net position	<u>\$ 2,957,789</u>	<u>\$ 1,930,826</u>

Premium revenues decreased \$295,308 or 3% primarily due to slight losses in membership offset by fluctuations in payroll and experience ratings with participating municipalities from the prior year. During the year ended December 31, 2017, the Fund reported premiums earned income of \$9,996,079 and non-operating investment income of \$550,507. During 2017, the Fund reported total expenses of \$7,588,797, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses decreased approximately \$1.3 million or 15% compared to the prior year primarily as a result of decreased claims expense from the prior year related to favorable development of prior year reserve estimates.

The Fund's increase in net position during 2017 was \$2,957,789. This is primarily a result of reduced claims expenses as discussed above. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

**Financial Outlook**

The Fund anticipates consistency in membership during the next fiscal year. Management emphasizes that the Fund's expenses are greatly impacted by claims losses and claims related expenses which are influenced by factors beyond management's control, including the rate of medical inflation, judicial rulings, and legislative changes.

**Requests for Information**

This financial report is designed to provide our members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 3,421,730	\$ 2,091,752
Investments (note 4)	37,012,071	36,471,879
Accounts receivable, net	1,174,418	1,392,580
Reinsurance receivable (note 3)	512,540	632,612
Accrued interest receivable	<u>185,713</u>	<u>181,228</u>
Total assets	<u>\$ 42,306,472</u>	<u>\$ 40,770,051</u>
Deferred outflows	-	-

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability (note 3)	\$ 12,888,000	\$ 13,923,000
Unearned premiums	699,982	1,089,759
Due to affiliates (note 2)	1,581,875	1,368,464
Accounts payable and accrued expenses	<u>3,002,399</u>	<u>3,212,401</u>
Total liabilities	18,172,256	19,593,624
Deferred inflows	-	-
Net position	<u>24,134,216</u>	<u>21,176,427</u>
Total liabilities, deferred inflows, and net position	<u>\$ 42,306,472</u>	<u>\$ 40,770,051</u>

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 9,996,079	\$ 10,291,387
Total operating revenues	9,996,079	10,291,387
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	2,849,016	3,597,581
Administrative fees (note 2)	998,744	1,087,650
Service agent fees (note 2)	862,552	939,334
Reinsurance premiums (note 2)	2,474,161	2,694,405
Second Injury Fund assessment	523,496	335,648
Office of Workers' Compensation assessment	(198,633)	181,577
Other	79,461	80,254
Total operating expenses	7,588,797	8,916,449
<b><u>OPERATING INCOME</u></b>	2,407,282	1,374,938
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	550,507	555,888
<b><u>CHANGE IN NET POSITION</u></b>	2,957,789	1,930,826
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	21,176,427	19,245,601
<b><u>NET POSITION - END OF YEAR</u></b>	\$ 24,134,216	\$ 21,176,427

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Operating income	\$ 2,407,282	\$ 1,374,938
Adjustments to reconcile operating loss to net cash provided by operations:		
Change in receivables and reinsurance receivable	338,234	(213,850)
Change in unpaid claims liability	(1,035,000)	(460,000)
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	(390,853)	(198,193)
Net cash provided by operating activities	1,319,663	502,895
Cash flows from investing activities:		
Investment income received	1,032,705	1,114,554
Purchases of investments	(11,950,829)	(14,368,855)
Proceeds from sales and maturities of investments	10,928,439	14,227,394
Net cash provided by investing activities	10,315	973,093
Net change in cash	1,329,978	1,475,988
Cash, beginning of year	2,091,752	615,764
Cash, end of year	\$ 3,421,730	\$ 2,091,752

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

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2017 and 2016, there were 168 and 178 participating municipalities, respectively.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRMA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund.

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various net position are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance enterprise having a business cycle greater than one year, the statements of net position are not presented in a classified format.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

*(c) Net Position*

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the differences between total assets and total liabilities presented in the Statement of Net Position.

*(d) Investments*

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements and U.S. Government Agency and Treasury obligations.

*(e) Premium Income and Accounts Receivable*

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. At each of December 31, 2017 and 2016, the allowance for doubtful accounts totaled \$100,000.

*(f) Operating / Non-Operating Revenue and Expenses*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

*(g) Unpaid Claims Liability*

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) *Unpaid Claims Liability*** (continued)

The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. The Fund also included unallocated loss adjustment expenses in its reserve valuation process.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements.

**(h) *Statements of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash held in demand deposit accounts with banks.

**(i) *Excess Reinsurance and other reimbursements***

The Fund uses excess reinsurance agreements to reduce its exposure to large losses on insured events. (See notes 2 and 5). Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Additionally, the Fund is reimbursed by the Second Injury Fund of the State of Louisiana for certain claims. Such reimbursable claims arise when a covered participant has returned to the workforce after experiencing a covered disability and is disabled for a second time with a similar injury.

**(j) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(k) *Insurance Related Assessments***

The Fund is subject to assessments made by the Louisiana Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognizes these assessments as expense when related claim benefits are incurred rather than paid. Changes in accruals for insurance related assessments are adjusted in the year assessment rate changes and claims estimates are made.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

*(l) Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

*(m) Reclassification*

Certain amounts in the 2016 financial statements have been reclassified to conform with the current year presentation.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2017 and 2016. The respective percentages of the respective earned normal premiums are as follows:

	2017	2016
Expenses (and current fee structure):		
Administrative fees – LMA (11.00% of ENP)	\$ 998,744	\$ 1,087,650
Service agent fees - RMI (9.50% of ENP)	\$ 862,552	\$ 939,334
Reinsurance premium - LMRFA (27.25% of ENP)	\$ 2,474,161	\$ 2,694,405
Reinsurance recoveries from LMRFA	\$ 2,667,690	\$ 2,417,972
Due to (from) affiliates:		
LMA	\$ 214,850	\$ 146,106
RMI	( 120,123)	( 166,629)
LMRFA	1,487,148	1,388,987
	\$ 1,581,875	\$ 1,368,464

Additionally, as of December 31, 2017, there is \$33,422 due to affiliates and as of December 31, 2016, there is \$26,687 due from an affiliate. For each of these years, these amounts are included in accounts receivable.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 40,647	\$ 42,445
Less: reinsurance recoverables	<u>26,724</u>	<u>28,062</u>
Liability for unpaid losses at beginning of year, net	<u>13,923</u>	<u>14,383</u>
Net incurred related to:		
Current year	4,446	4,403
Prior years	<u>(1,597)</u>	<u>(805)</u>
Total incurred	<u>2,849</u>	<u>3,598</u>
Net paid related to:		
Current year	993	903
Prior years	<u>2,891</u>	<u>3,155</u>
Total paid	<u>3,884</u>	<u>4,058</u>
Liability for unpaid losses at end of year, gross	36,979	40,576
Less: reinsurance recoverable (note 5)	<u>24,091</u>	<u>26,653</u>
Liability for unpaid losses at end of year, net	<u>\$ 12,888</u>	<u>\$ 13,923</u>

In addition to the unpaid claims covered by the reinsurers, there are \$512,540 and \$632,612 of paid claims which are recoverable from the reinsurer at December 31, 2017 and 2016, respectively. During 2017 and 2016, the Fund experienced overall favorable development on unpaid claims liabilities established in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2017 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2017 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for the years ended December 31, 2017 and 2016, based on the Fund's anticipated payout patterns and a discount rate assumption of 3.0%, which is intended to approximate the investment earnings over the reserve payout period. The effect of the reserve discounts was \$1,410,000 and \$1,544,000 at December 31, 2017 and 2016, respectively.

The Fund is also subject to assessments by the Louisiana Second Injury Fund and Office of Workers Compensation each year based on the amount of assessable benefits paid each year. The Fund includes in accrued expenses estimated liabilities to be paid for assessable benefits paid and estimated to be paid in future periods.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2017 and 2016.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire-transfer cash as needed from investments to support disbursements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2017 and 2016:

<u>Investment Type</u>	2017		2016	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S. Treasury bonds and notes	\$ 1,775,404	\$ 1,775,235	\$ 1,504,824	\$ 1,487,116
U.S. Government mortgage backed securities	9,846,387	9,863,228	9,585,791	9,521,638
U.S. Agency debt obligations	24,720,358	24,743,384	24,051,167	23,906,070
Money market funds	<u>669,922</u>	<u>669,922</u>	<u>1,330,097</u>	<u>1,330,097</u>
TOTAL	<u>\$ 37,012,071</u>	<u>\$ 37,051,769</u>	<u>\$ 36,471,879</u>	<u>\$ 36,244,921</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market funds are not required to be rated.

All of the Fund's investments with the exception of money market investments are backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2017:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Treasury bonds and notes	\$ 1,775,404	\$ 99,973	\$ 1,210,889	\$ 464,542	\$ -
U.S. Government mortgage backed	9,846,387	33,262	24,256	2,997,980	6,790,889
U.S. Agency debt obligations	24,720,358	3,355,478	13,026,524	7,335,673	1,002,683
Money market funds	<u>669,922</u>	<u>669,922</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$37,012,071</u></b>	<b><u>\$ 4,158,635</u></b>	<b><u>\$ 14,261,669</u></b>	<b><u>\$10,798,195</u></b>	<b><u>\$ 7,793,572</u></b>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 874,769	\$ 928,836
Realized losses, net	(57,606)	(34,597)
Unrealized losses arising during the year	<u>(266,656)</u>	<u>(338,351)</u>
	<b><u>\$ 550,507</u></b>	<b><u>\$ 555,888</u></b>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

Fair Value

The Fund is required by GASB 72, *Fair Value Measurement and Application*, to categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The implementation of this new statement did not change the method of measuring the Fund's investments at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and consisted of the following at December 31, 2017 and 2016:

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 1,775,404	\$ -	\$ 1,775,404
U.S. Government mortgage-backed securities	-	9,846,387	9,846,387
U.S. Agency debt obligations	24,720,358	-	24,720,358
Money market funds	669,922	-	669,922
	<u>\$ 27,165,684</u>	<u>\$ 9,846,387</u>	<u>\$ 37,012,071</u>

December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 1,504,824	\$ -	\$ 1,504,824
U.S. Government mortgage-backed securities	-	9,585,791	9,585,791
U.S. Agency debt obligations	24,051,167	-	24,051,167
Money market funds	1,330,097	-	1,330,097
	<u>\$ 26,886,088</u>	<u>\$ 9,585,791</u>	<u>\$ 36,471,879</u>

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation and accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claim obligations remains with the participants. LMRFA provides excess reinsurance to the Fund with the following limits:

Item I:	\$2,000,000 annual aggregate in excess of 80% of earned normal premium
Item II:	\$2,000,000 each and every loss in excess of \$175,000 each and every loss in accident years prior to 2012 and \$250,000 for 2012 and future years.

The following are condensed Statements of Net Position for LMRFA at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Assets	\$ 54,598,297	\$ 54,695,070
Liabilities	<u>37,665,088</u>	<u>42,632,360</u>
Net position	<u>\$ 16,933,209</u>	<u>\$ 12,062,710</u>

At December 31, 2017, the Fund included approximately \$23 million as recoverable from LMRFA (included in the liabilities above) which reduces the Fund's liabilities for anticipated losses (note 3). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

**6. SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 20, 2018, and determined that there were no events that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**CLAIMS EXPENSE AND ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2017**  
**(Unaudited)**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2017 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	(in thousands)									
ENP and investment income	\$ 10,547	\$ 10,847	\$ 8,270	\$ 10,119	\$ 8,956	\$ 11,046	\$ 11,787	\$ 12,360	\$ 11,166	\$ 11,138
Operating costs, unallocated	4,740	5,319	4,087	12,669	7,317	5,887	5,721	4,951	3,431	3,395
Estimated incurred claims and expense, end of policy year	4,670	4,653	5,107	6,286	6,343	6,103	4,786	6,286	4,429	4,824
Paid (cumulative) as of:										
End of policy year	993	903	811	1,198	1,195	1,301	1,096	1,540	876	909
One year later	-	2,111	1,944	3,071	2,514	3,353	2,187	3,447	1,761	2,164
Two years later	-	-	2,534	3,825	3,464	4,389	2,671	4,165	2,258	2,757
Three years later	-	-	-	4,637	4,069	5,458	2,962	4,809	2,467	3,042
Four years later	-	-	-	-	4,406	6,093	3,224	5,185	2,554	3,270
Five years later	-	-	-	-	-	6,255	3,293	5,453	2,579	3,605
Six years later	-	-	-	-	-	-	3,338	5,466	2,597	3,353
Seven years later	-	-	-	-	-	-	-	5,445	2,608	3,403
Eight years later	-	-	-	-	-	-	-	-	2,639	3,418
Nine years later	-	-	-	-	-	-	-	-	-	3,429
Estimated incurred claims and claims expense:										
End of policy year	4,670	4,653	5,107	6,286	6,343	6,103	4,786	6,286	4,429	4,824
One year later	-	4,084	4,595	5,979	5,823	7,359	4,450	6,148	3,329	4,938
Two years later	-	-	4,298	6,179	5,847	7,752	4,106	6,286	3,722	4,005
Three years later	-	-	-	6,284	5,896	8,018	4,004	6,346	3,329	4,470
Four years later	-	-	-	-	5,729	8,037	3,949	6,358	3,147	4,043
Five years later	-	-	-	-	-	7,497	3,791	6,378	3,067	3,896
Six years later	-	-	-	-	-	-	3,694	6,171	3,018	4,172
Seven years later	-	-	-	-	-	-	-	6,057	2,930	3,799
Eight years later	-	-	-	-	-	-	-	-	2,857	3,731
Nine years later	-	-	-	-	-	-	-	-	-	3,656
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(569)	(809)	(2)	(614)	1,394	(1,092)	(229)	(1,572)	(1,168)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2017**

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

\*\*No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.

**INDEPENDENT AUDITORS' 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***

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of December 31, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

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

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



Postlethwaite & Netterville

### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 20, 2018

---

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (Unaudited)	3 – 5
<b><u>Financial Statements</u></b>	
Statements of Net Position	6
Statements of Revenues, Expenses, and Changes in Net Position	7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 18
<b><u>Required Supplemental Information</u></b>	
Schedule of Ten-Year Claims Development Information	19
<b><u>Other Supplemental Information</u></b>	
Schedule of Compensation, Benefits, and Other Payments to Chief Executive Officer	20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21 – 22



Postlethwaite & Netterville

8550 United Plaza Blvd . Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax

A Professional Accounting Corporation

## INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency  
Baton Rouge, Louisiana

We have audited the accompanying statements of net position of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' 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 audits 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 auditors' 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Postlethwaite & Netterville

Other Matters

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 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 opinions on the financial statements that collectively comprise Louisiana Municipal Reserve Fund Agency basic financial statements. The schedule of compensation, benefits, and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits, and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates 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 schedule of compensation, benefits, and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 20, 2018, on our consideration of the Fund's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana

June 20, 2018

## LOUISIANA MUNICIPAL RESERVE FUND AGENCY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2017 by \$16,933,209 compared to \$12,062,710 as of December 31, 2016, which is a 40% increase from the previous year. This increase was driven by lower claims expense resulting from large favorable development of loss reserves on prior policy years.
- At December 31, 2017, the Fund's assets totaled \$54,598,297, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables. At December 31, 2016, the Fund's assets totaled \$54,695,070 which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables.
- The Fund reported gross earned premiums of \$4,392,497 and \$4,637,869 during the years ended December 31, 2017 and 2016, respectively. The decrease in the earned premium is a result of slightly decreased premium income from both the Worker's Compensation Fund and the Public Liability Fund as a result of slightly decreased membership compared to 2016.
- The Fund reported investment income of \$823,206 and of 672,726 during the years ended December 31, 2017 and 2016, respectively. The increase in investment income is attributed to valuation changes in the investment portfolio.
- The Fund had an increase in net position of \$4,870,499 and \$2,103 during the years ended December 31, 2017 and 2016, respectively. During 2017, the increase in net position is as a result of significant favorable claims development at the excess level on both LMRMA Funds.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability, and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses, and Changes in Net Position as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in them. The net position (difference between assets, deferred outflows, deferred inflows, and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

**Condensed Statements of Net Position at December 31:**

	<u>2017</u>	<u>2016</u>
Total assets	\$ 54,598,297	\$ 54,695,070
Deferred outflows	-	-
Total liabilities	37,665,088	42,632,360
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 16,933,209</u>	<u>\$ 12,062,710</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 0.2% while liabilities decreased by 11.7% due to lower estimates of unpaid claims liability. Net position increased approximately 40% from the prior year.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31:**

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 4,392,497	\$ 4,637,869
Operating expenses	<u>345,204</u>	<u>5,308,492</u>
Operating income (loss)	4,047,293	( 670,623)
Non-operating income	<u>823,206</u>	<u>672,726</u>
Change in net position	<u>\$ 4,870,499</u>	<u>\$ 2,103</u>

During the year ended December 31, 2017, the Fund reported premium earned of \$4,392,497 and investment income of \$823,206. Premiums earned decreased slightly due to decreases in the Worker's Compensation and Public Liability Fund's premiums. The Fund reported total expenses of \$345,204 and \$5,308,462 which consisted primarily of claims expense in 2017 and 2016, respectively. The decrease in expense in 2017 results from significant favorable development in estimated loss reserves from the prior year. The Fund experienced non-operating income of \$823,206 and an increase in net position of \$4,870,499 for the current year. See the Statements of Revenues, Expenses, and Changes in Net Position on page 7 of this report.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Reserve Fund Agency, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

**ASSETS**

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 2,667,469	\$ 3,584,633
Investments (note 4)	51,683,396	50,863,609
Accrued interest receivable	<u>247,432</u>	<u>246,828</u>
Total assets	<u>\$ 54,598,297</u>	<u>\$ 54,695,070</u>
Deferred outflows	-	-

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability (note 3)	\$ 37,208,000	\$ 42,079,000
Due to affiliates (note 2)	442,951	539,448
Accrued expenses	<u>14,137</u>	<u>13,912</u>
Total liabilities	37,665,088	42,632,360
Deferred inflows	-	-
Net position	<u>16,933,209</u>	<u>12,062,710</u>
Total liabilities, deferred inflows, and net position	<u>\$ 54,598,297</u>	<u>\$ 54,695,070</u>

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned (note 2)	\$ 4,392,497	\$ 4,637,869
Total operating revenues	<u>4,392,497</u>	<u>4,637,869</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	263,591	5,222,116
Professional fees and other	<u>81,613</u>	<u>86,376</u>
Total operating expenses	<u>345,204</u>	<u>5,308,492</u>
<b><u>OPERATING INCOME (LOSS)</u></b>	4,047,293	(670,623)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	<u>823,206</u>	<u>672,726</u>
<b><u>CHANGE IN NET POSITION</u></b>	4,870,499	2,103
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>12,062,710</u>	<u>12,060,607</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 16,933,209</u>	<u>\$ 12,062,710</u>

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 4,047,293	\$ (670,623)
Adjustments to reconcile operating income to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	(97,101)	(717,559)
Change in unpaid claims liability	(4,871,000)	349,000
Change in accrued expenses	225	184
Net cash used in operating activities	<u>(920,583)</u>	<u>(1,038,998)</u>
Cash flows from investing activities:		
Purchases of investments	(18,313,883)	(20,156,548)
Proceeds from sales or maturities of investments	16,936,434	18,633,265
Investment income received	1,380,868	1,494,699
Net cash provided by (used in) investing activities	<u>3,419</u>	<u>(28,584)</u>
Net change in cash	(917,164)	(1,067,582)
Cash, beginning of year	<u>3,584,633</u>	<u>4,652,215</u>
Cash, end of year	<u>\$ 2,667,469</u>	<u>\$ 3,584,633</u>

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

# LOUISIANA MUNICIPAL RESERVE FUND AGENCY

## NOTES TO FINANCIAL STATEMENTS

### **1. SIGNIFICANT ACCOUNTING POLICIES**

#### ***(a) Background and Financial Statement Presentation***

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Fund is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability Fund and Workers' Compensation.

LMRMA was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of LMRMA after actuarial consultation. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRFA.

Risk Management, Inc. (RMI) is a third party service agent primarily for LMRMA insurance funds and LMRFA. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

The various LMRMA Funds, LMA, RMI, and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various net positions are available only to each individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

#### ***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Net Position***

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

**(d) *Investments***

Investments are reported at estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at estimated fair value are included in investment income. Investments include money market accounts, repurchase agreements, and U.S. Government Agency, treasury obligations and corporate obligations.

**(e) *Premium Income***

Most of the premium income of LMRFA is based on a percentage of LMRMA workers' compensation and public liability premiums (see Note 2). Premiums are earned over the period of providing excess insurance coverage. Premiums are provided over the period of Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. Acquisition costs associated with new and renewal contracts are expensed when incurred.

**(f) *Operating/Non-Operating Revenue and Expense***

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***(g) Unpaid Claims Liability***

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as public liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. The Fund also included unallocated loss adjustment expenses in its reserve valuation process.

A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements.

***(h) Statements of Cash Flows***

For the purpose of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).

***(i) Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

***(j) Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

***(k) Reclassifications***

Certain accounts have been reclassified to conform to the current year presentation. These reclassifications have had no effect on the change in net position for 2016.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI, LMRMA, and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned premiums and earned normal premiums. The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	<u>2017</u>		<u>2016</u>	
	Fee Basis	Amount	Fee Basis	Amount
Premium income:				
LMRMA:				
Public Liability	16.55% earned premium	\$ 1,918,336	16.55% earned premium	\$ 1,943,464
Workers' Compensation	27.25% ENP	<u>2,474,161</u>	27.25% ENP	<u>2,694,405</u>
		<u>\$ 4,392,497</u>		<u>\$ 4,637,869</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		(\$ 1,930,099)		(\$ 1,928,435)
Workers' Compensation		<u>1,487,148</u>		<u>1,388,987</u>
		<u>(\$ 442,951)</u>		<u>(\$ 539,448)</u>

As reflected in the table above, the Fund receives all of its revenue from LMRMA affiliated entities which are insured by the Fund.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 42,079	\$ 41,730
Less: Reinsurance recoverables	-	-
Liability for unpaid losses at beginning of year, net	<u>42,079</u>	<u>41,730</u>
Net incurred related to:		
Current year	4,874	5,731
Prior years	<u>(4,610)</u>	<u>(509)</u>
Total incurred	<u>264</u>	<u>5,222</u>
Net paid related to:		
Current year	334	-
Prior years	<u>4,801</u>	<u>4,873</u>
Total paid	<u>5,135</u>	<u>4,873</u>
Liability for unpaid losses at end of year, gross	37,208	42,079
Less: Reinsurance recoverables	-	-
Liability for unpaid losses at end of year, net	<u>\$ 37,208</u>	<u>\$ 42,079</u>

The above year end reserve liabilities were comprised coverage types from each of the following LMRMA Funds:

	<u>2017</u>	<u>2016</u>
	(Amounts in thousands)	
Workers' Compensation	\$ 24,091	\$ 27,453
Public Liability	<u>13,117</u>	<u>14,426</u>
	<u>\$ 37,208</u>	<u>\$ 42,079</u>

During 2017 and 2016, the Fund experienced favorable development related to the Workers Compensation and Public Liability Fund unpaid claims liabilities resulting from actual reported losses being lower than expected at the excess layer. During 2017, this favorable development was more pronounced. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2017 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2017 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for each of December 31, 2017 and 2016, based on the Fund's anticipated payout patterns and discount rate assumptions of 3.0% which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$10,020,000 and \$11,123,000 at December 31, 2017 and 2016, respectively.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS**

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2017 and 2016.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts, and repurchase agreements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2017 and 2016:

<u>Investment Type</u>	<u>2017</u>		<u>2016</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage backed securities	\$ 14,689,354	\$ 14,814,776	\$ 15,078,388	\$ 15,107,027
U.S. Government agency debt obligations	35,726,038	35,750,936	33,556,541	33,383,897
U.S. Treasury bonds and notes	651,895	620,443	601,069	560,194
Money market funds	<u>616,109</u>	<u>616,109</u>	<u>1,627,611</u>	<u>1,627,611</u>
TOTAL	<u>\$ 51,683,396</u>	<u>\$ 51,802,264</u>	<u>\$ 50,863,609</u>	<u>\$ 50,678,729</u>

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

Custodial Credit Risk (continued)

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market accounts are not required to be rated.

All of the Fund's investments with the exception of money market investments are backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS** (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2017:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Government mortgage backed securities	\$ 14,689,354	\$ 15,504	\$ 221,244	\$ 2,290,442	\$ 12,162,164
U.S. Government agency debt obligations	35,726,038	3,421,364	18,290,975	13,011,016	1,002,683
U.S. Treasury bonds and notes	651,895	-	406,457	245,438	-
Money market funds	<u>616,109</u>	<u>616,109</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 51,683,396</u>	<u>\$ 4,052,977</u>	<u>\$ 18,918,676</u>	<u>\$ 15,546,896</u>	<u>\$ 13,164,847</u>

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 1,200,766	\$ 1,313,325
Net realized losses -- net	( 73,811)	( 52,640)
Unrealized (losses) gains arising during the year	( 303,749)	( 587,959)
	<u>\$ 823,206</u>	<u>\$ 672,726</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEPOSITS AND INVESTMENTS (continued)**

**Fair Value**

Beginning with the year ended December 31, 2016, the Fund is required by GASB 72, *Fair Value Measurement and Application*, to begin categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The implementation of this new statement did not change the method of measuring the Fund's investments at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and consisted of the following at December 31, 2017 and 2016:

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 651,895	\$ -	\$ 651,895
U.S. Government mortgage- backed securities	-	14,689,354	14,689,354
U.S. Agency debt obligations	35,726,038	-	35,726,038
Money market funds	616,109	-	616,109
	<u>\$ 36,994,042</u>	<u>\$ 14,689,354</u>	<u>\$ 51,683,396</u>

December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 601,069	\$ -	\$ 601,069
U.S. Government mortgage- backed securities	-	15,078,388	15,078,388
U.S. Agency debt obligations	33,556,541	-	33,556,541
Money market funds	1,627,611	-	1,627,611
	<u>\$ 35,785,221</u>	<u>\$ 15,078,388</u>	<u>\$ 50,863,609</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

LMRMA and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation, and accident and health risks of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

*Ceded:*

LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995, through December 31, 2001. For all subsequent years, the LMRFA did not reinsure insured coverages.

*Assumed:*

LMRFA provided excess reinsurance to LMRMA's, Workers' Compensation and Public Liability Funds with the following limits:

Workers' Compensation Fund

Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium

Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss in accident years prior to 2012 and \$250,000 for 2012 and future years.

Public Liability Fund

Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium

Item II: Each and every loss in excess of \$100,000 each and every loss in accident years prior to 2012 and \$150,000 for 2012 future years.

**6. SUBSEQUENT EVENTS**

Effective March 5, 2018, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering losses in excess of \$400,000 and is limited to 50% of \$1 million per occurrence for the period from March 5, 2018 to December 31, 2018. Management has evaluated events through the date that the financial statements were available to be issued, June 20, 2018 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**CLAIMS EXPENSE AND ESTIMATED CLAIM ADJUSTMENT EXPENSE**

**DECEMBER 31, 2017**

*(Unaudited)*

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense incurred by the Fund as of the end of 2017 and as of the end of each of the last nine years.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in thousands)									
ENP and investment income	\$ 5,216	\$ 5,311	\$ 9,962	\$ 9,910	\$ 6,948	\$ 7,590	\$ 6,672	\$ 5,220	\$ 6,999	\$ 6,090
Operating costs, unallocated	82	86	66	87	162	127	127	122	127	124
Estimated incurred claims and expense, end of policy year	6,012	7,038	6,695	9,072	7,037	9,594	9,529	9,211	7,560	9,125
Paid (cumulative) as of:										
End of policy year	334	-	-	-	1	1,087	797	787	942	1,232
One year later	-	138	291	228	189	1,160	1,733	787	942	1,232
Two years later	-	-	859	830	262	2,268	3,106	2,661	1,987	1,370
Three years later	-	-	-	1,440	641	2,677	4,036	5,062	2,040	2,600
Four years later	-	-	-	-	716	2,795	4,336	6,223	3,314	4,095
Five years later	-	-	-	-	-	3,481	4,602	6,728	3,803	4,841
Six years later	-	-	-	-	-	-	4,762	7,034	3,877	5,414
Seven years later	-	-	-	-	-	-	-	7,152	4,040	5,589
Eight years later	-	-	-	-	-	-	-	-	4,344	5,687
Nine years later	-	-	-	-	-	-	-	-	-	5,844
Estimated incurred claims and claims expense:										
End of policy year	6,012	7,038	6,695	9,072	7,037	9,594	9,529	9,211	7,560	9,125
One year later	-	6,454	6,136	6,747	6,774	11,680	10,038	7,544	6,279	10,254
Two years later	-	-	5,269	6,113	4,606	11,462	9,087	9,554	6,372	8,302
Three years later	-	-	-	4,816	4,077	9,213	8,697	10,517	5,807	7,514
Four years later	-	-	-	-	2,947	8,395	7,267	10,809	5,940	8,428
Five years later	-	-	-	-	-	7,019	7,015	10,354	5,867	8,208
Six years later	-	-	-	-	-	-	6,528	9,899	5,497	8,405
Seven years later	-	-	-	-	-	-	-	9,459	5,301	7,711
Eight years later	-	-	-	-	-	-	-	-	5,195	7,367
Nine years later	-	-	-	-	-	-	-	-	-	7,127
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(584)	(1,426)	(4,256)	(4,090)	(2,575)	(3,001)	248	(2,365)	(1,998)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2017**

**Agency Head Name:** John Gallagher

<b>Purpose</b>	<b>Amount</b>
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

\*\*No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax - 225-922-4601

A Professional Accounting Corporation

**INDEPENDENT AUDITORS' 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**

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency  
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund), which comprise the statement of net position as of December 31, 2017, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

Internal Control Over Financial Reporting

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

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

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



Postlethwaite & Netterville

### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 20, 2018

---

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2017**

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b><u>INDEPENDENT AUDITORS' REPORT</u></b>	1 – 3
<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)</u></b>	4 – 6
<b><u>FINANCIAL STATEMENTS</u></b>	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10 – 16
<b><u>OTHER SUPPLEMENTARY INFORMATION</u></b>	
Schedule of Compensation, Benefits and Other Payments to Chief Executive Officer	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 – 19



Postlethwaite & Netterville

8550 United Plaza Blvd , Ste. 1001 - Baton Rouge, LA 70809

225-922-4600 Phone - 225-922-4611 Fax - 225-922-4611

A Professional Accounting Corporation

## INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund  
Baton Rouge, Louisiana

We have audited the accompanying statements of net position of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2017 and 2016, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' 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 with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Postlethwaite & Netterville

### Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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 opinions on the financial statements that collectively comprise Louisiana Municipal Association - Unemployment Compensation Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer included on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates 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 schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Postlethwaite & Netterville

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 20, 2018, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters which appears on pages 18 and 19. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 20, 2018

## **LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS** **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2017 and 2016. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2017 by \$4,096,513 compared to \$4,013,900 at December 31, 2016, which is approximately a 2% increase from the previous year.
- At December 31, 2017 and 2016, the Fund's assets totaled \$4,512,754 and \$4,479,076, respectively, which consisted primarily of receivables and investments.
- The Fund reported premiums earned of \$361,103 and \$360,707 during the years ended December 31, 2017 and 2016, respectively. Change in net position was an increase of \$82,613 in 2017 and \$30,498 in 2016.
- Investment gains were \$73,325 in 2017 compared to \$66,902 during 2016. The increase in investment gains in 2017 were attributed primarily to fluctuations in market prices.

#### **Overview of the Financial Statements**

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Overview of the Financial Statements (continued)**

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statement of Revenues, Expenses and Changes in Net Position as these circumstances become known.

**Financial Analysis of the Fund**

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions and new or changed government legislation.

**Condensed Statements of Net Position**

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total assets	\$ 4,512,754	\$ 4,479,076
Total liabilities	<u>416,241</u>	<u>465,176</u>
Net position	<u>\$ 4,096,513</u>	<u>\$ 4,013,900</u>

The Fund's total assets consist almost entirely of investments in U.S. Treasury and U.S. Agency securities and cash equivalents. The Fund's liabilities consist of estimated benefits and related administration costs payable at year end.

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**

**Financial Analysis of the Fund (continued)**

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 361,103	\$ 360,707
Operating expenses	<u>351,815</u>	<u>397,111</u>
Operating gain/(loss)	9,288	(36,404)
Non-operating income	<u>73,325</u>	<u>66,902</u>
Change in net position	<u>\$ 82,613</u>	<u>\$ 30,498</u>

Operating revenues increased by approximately 0.11% from the year ended December 31, 2016 to 2017. Claims expense decreased approximately 14.1% during the year ended December 31, 2017 as a result of a decrease in unemployment claims incurred. Additionally, during 2017, investment income increased as compared to 2016 as a result increases in the average balance of investment. Because of the slight increase in revenues and investment income, the Fund's net position for 2017 increased \$82,613.

Management anticipates unemployment trends in the State of Louisiana will continue to remain comparable in 2018. At this time, management does not anticipate an increase in premiums, due to the overall health of the Fund, but will continue to monitor the future obligations. These trends indicate the Fund will likely incur similar benefit obligations and remain comparable to the year ended December 31, 2017.

**Requests for Information**

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Association – Unemployment Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents (note 2)	\$ 33,714	\$ 27,640
Investments (note 2)	4,353,265	4,325,236
Accounts receivable	89,887	89,429
Prepaid expenses	13,783	14,193
Accrued interest receivable	22,105	22,578
	<hr/>	<hr/>
Total Assets	\$ 4,512,754	\$ 4,479,076
	<hr/>	<hr/>
Deferred outflows	-	-
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	66,241	102,370
Due to/from other funds	-	12,806
	<hr/>	<hr/>
Total Liabilities	416,241	465,176
Deferred inflows	-	-
Net position	<hr/> 4,096,513	<hr/> 4,013,900
Total liabilities, deferred inflows, and net position	<hr/> \$ 4,512,754	<hr/> \$ 4,479,076

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

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 361,103	\$ 360,707
Total operating revenues	361,103	360,707
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	276,085	321,340
Service agent fees	55,843	56,052
Miscellaneous	19,887	19,719
Total operating expenses	351,815	397,111
<b><u>OPERATING INCOME (LOSS)</u></b>	9,288	(36,404)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income - net	73,325	66,902
<b><u>CHANGE IN NET POSITION</u></b>	82,613	30,498
<b>NET POSITION - BEGINNING OF YEAR</b>	4,013,900	3,983,402
<b>NET POSITION - END OF YEAR</b>	\$ 4,096,513	\$ 4,013,900

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

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Cash flows from operating activities:		
Operating income (loss)	\$ 9,288	\$ (36,404)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(458)	5,170
Prepays	410	13
Accrued expenses, unpaid claims and other liabilities	(48,935)	36,384
Net cash provided by (used in) operating activities	(39,695)	5,163
Cash flows from investing activities:		
Purchases of investments	(1,436,766)	(2,297,243)
Proceeds from sale or maturity of investments	1,362,013	2,188,763
Investment income received	120,522	127,235
Net cash provided by investing activities	45,769	18,755
Net change in cash	6,074	23,918
Cash, beginning of year	27,640	3,722
Cash, end of year	\$ 33,714	\$ 27,640

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

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities who have joined together through self-insurance agreements to provide unemployment compensation fund insurance to member municipalities. Administration of the Fund is vested in the Executive Board of the Louisiana Municipal Association (LMA). If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

As of December 31, 2017, there were approximately 6,522 participants and 143 participating municipalities. As of December 31, 2016, there were approximately 6,593 participants and 143 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net position is available only to the respective entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

***(c) Net Position***

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

***(d) Cash and Cash Equivalents***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.

***(e) Investments***

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in net investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities.

***(f) Unpaid Claims Liability***

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the estimates of prior years' claims liability. These changes are reflected in operations in the period they become known. The Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported, but not yet settled.

***(g) Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

***(h) Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to premiums are considered to be a change in estimate and are recognized in the period they become known.

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

***(i) Use of Estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its insurance liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2017 and 2016.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31:

<u>Investment Type</u>	<u>2017</u>		<u>2016</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 200,594	\$ 203,313	\$ 202,499	\$ 204,261
U.S. Government mortgage-backed securities	1,200,459	1,207,888	1,166,439	1,165,691
U.S. Agency debt obligations	2,842,212	2,836,632	2,846,899	2,826,449
Money market funds	<u>110,000</u>	<u>110,000</u>	<u>109,399</u>	<u>109,399</u>
TOTAL	<u>\$ 4,353,265</u>	<u>\$ 4,357,833</u>	<u>\$ 4,325,236</u>	<u>\$ 4,305,800</u>

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS** (continued)

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

**Credit Risk**

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk at December 31:

Standards and Poor's Rating	Estimated Fair Value <u>2017</u>	Estimated Fair Value <u>2016</u>
Money market funds – not rated	\$ 110,000	\$ 109,399
U.S. Government Securities and U.S. Treasury Securities – not rated	1,401,053	1,368,938
Rated AA+	<u>2,842,212</u>	<u>2,846,899</u>
	<u>\$ 4,353,265</u>	<u>\$ 4,325,236</u>

Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS** (continued)

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2017:

	Estimated <u>Fair Value</u>	Less <u>Than 1 Year</u>	<u>1 – 5 Years</u>	<u>5 – 10 Years</u>	Over <u>10 Years</u>
U.S. Treasury bonds and notes	\$ 200,594	\$ -	\$ 155,407	\$ 45,187	\$ -
U.S. Government mortgage- backed securities	1,200,459	2,094	1,262	181,673	1,015,430
U.S. Agency debt obligations	2,842,212	99,916	1,589,667	1,052,361	100,268
Money market funds	<u>110,000</u>	<u>110,000</u>	-	-	-
	<u>\$ 4,353,265</u>	<u>\$ 212,010</u>	<u>\$ 1,746,336</u>	<u>\$ 1,279,221</u>	<u>\$ 1,115,698</u>

Investment income for the years ended December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest income	\$ 104,311	\$ 102,822
Net realized loss	(6,983)	(5,725)
Unrealized net loss arising during the year	<u>(24,003)</u>	<u>(30,195)</u>
	<u>\$ 73,325</u>	<u>\$ 66,902</u>

**Fair Value**

The Fund is required by GASB 72, *Fair Value Measurement and Application*, to begin categorizing its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

2. **DEPOSITS AND INVESTMENTS** (continued)

**Fair Value** (continued)

The implementation of this new statement did not change the method of measuring the Fund's investments at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and consisted of the following at December 31, 2017 and 2016:

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 200,594	\$ -	\$ 200,594
U.S. Government mortgage- backed securities	-	1,200,459	1,200,459
U.S. Agency debt obligations	2,842,212	-	2,842,212
Money market funds	110,000	-	110,000
	<u>\$ 3,152,806</u>	<u>\$ 1,200,459</u>	<u>\$ 4,353,265</u>

December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 202,499	\$ -	\$ 202,499
U.S. Government mortgage- backed securities	-	1,166,439	1,166,439
U.S. Agency debt obligations	2,846,899	-	2,846,899
Money market funds	109,399	-	109,399
	<u>\$ 3,158,797</u>	<u>\$ 1,166,439</u>	<u>\$ 4,325,236</u>

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

3. **CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>350</u>	\$ <u>350</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>276</u>	<u>321</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	186	226
Claims and claim adjustment expenses attributable to insured events of prior years	<u>90</u>	<u>95</u>
Total payments	<u>276</u>	<u>321</u>
Total unpaid claims and claims adjustment expenses liability at end of year	\$ <u><u>350</u></u>	\$ <u><u>350</u></u>

4. **DUE TO/FROM OTHER FUNDS**

Individual balances due to/from other funds were \$0 and \$12,806 as of December 31, 2017 and December 31, 2016, respectively. These balances do not bear interest and have no specific repayment terms.

5. **SUBSEQUENT EVENTS**

Management has evaluated events through the date that the financial statements were available to be issued, June 20, 2018 and determined that there were no events that require disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2017**

**Agency Head Name:** John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by Agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

\*\*No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.



Postlethwaite & Netterville

8550 United Plaza Blvd., Ste. 1001 - Baton Rouge, LA 70809  
225-922-4600 Phone - 225-922-4611 Fax - 225-922-4611

A Professional Accounting Corporation

**INDEPENDENT AUDITORS' 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**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund  
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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

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



Postlethwaite & Netterville

### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana

June 20, 2018

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**REPORT TO MANAGEMENT**

**DECEMBER 31, 2017**



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

REPORT TO MANAGEMENT

DECEMBER 31, 2017

June 20, 2018

Members of the Board and Management  
Louisiana Municipal Risk Management Agency- Public Liability Fund and Workers' Compensation Fund  
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of Louisiana Municipal Risk Management Agency (LMRMA or the Agency), for the year ended December 31, 2017, we considered the Agency's internal controls over financial reporting and compliance with laws and regulations having a material effect on financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. Our consideration does not provide assurance on the internal control structure or on compliance.

However, during our audit, we became aware of the following matters that represent opportunities for improving financial reporting, refining policies and procedures, including those that help ensure compliance with laws and regulations. The following paragraphs summarize our comments and suggestions regarding those matters. This letter does not affect our report dated June 20, 2018 on the financial statements of LMRMA.

**2017-001 Premium Revenue**

Condition:                   The Public Liability Fund and the Workers Compensation Fund maintain their books on the cash basis. Annually, in conjunction with the preparation of financial statement for reporting to regulatory agencies, premium revenue is converted from a cash basis to an accrual basis. This is done by utilizing reports generated from the Pericura System. Over the past several periods, manual adjustments to the reports were required in order for accrual based premiums to be properly calculated and recorded. In 2017, the issue surrounded municipalities that cancelled coverage during the current fiscal period. While the Funds earned revenue and collected cash related to these particular municipalities, the Pericura system generated a report which showed that zero accrual based revenue should be recognized.

Recommendation: We recommend that the Fund's management conduct a thorough review of schedules produced by the Pericura system to ensure appropriate revenue recognition for the requirements of accrual based accounting. Additionally, we recommend that the Fund ensures that its service providers work together to ensure the controls over such reporting are consistently applied.

*Management's Response and Corrective Action:*

Management plans to work over the next several months to address the reporting problem related to Pericura. We believe that most of the issues relative to zero premium showing up for groups termed in the current period will be resolved with additional personnel training in the Membership and Billing Department. We will work with our service provider to obtain the needed training. Additionally, we as management are looking at potentially hiring additional personnel to assist us in reviewing the reports produced by Pericura. In doing this, and working with our service providers we feel that we will be able to provide the accurate and reliable reports needed to record the appropriate accrual based premium revenue.

We have already discussed many of these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience to perform any additional study of these matters, or to assist you in implementing the recommendations. We would also like to thank the LMRMA staff for their patience and cooperation with us during the performance of the audit.

Sincerely,

*Postlethwaite & Netterville*

---

**LOUISIANA MUNICIPAL ASSOCIATION**  
**INSURANCE RISK POOLS**

**REPORT ON STATEWIDE AGREED-UPON PROCEDURES**  
**AND ASSOCIATED RESULTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

---



Postlethwaite & Netterville

A Professional Accounting Corporation

[www.pncpa.com](http://www.pncpa.com)

## TABLE OF CONTENTS

	<u>Page</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures	1
Schedule A: Agreed-Upon Procedures and Observations and Associated Results	2 - 13
Management's Response and Corrective Action Plan	

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

To Board of Directors of  
Louisiana Municipal Association and the  
Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A, which were agreed to by Louisiana Municipal Association (LMA) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The Entity's management is responsible for those C/C areas identified in the SAUPs. The LMA Insurance Risk Pools consist of the following funds and will collectively be referred to as the Entity or the Fund's:

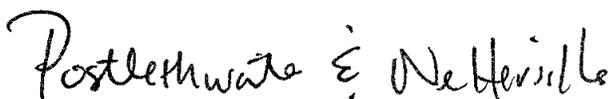
- Louisiana Municipal Reserve Fund Agency
- Louisiana Municipal Risk Management Agency Public Liability Fund
- Louisiana Municipal Risk Management Agency Workers' Compensation
- Louisiana Municipal Association - Unemployment Compensation Fund
- Louisiana Municipal Risk Management Agency – Accident and Health Fund

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

The procedures we performed and the associated results are summarized in the attached Schedule A, which is an integral part of this report.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C 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 C/C 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.



Baton Rouge, Louisiana  
June 20, 2018

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

*Administration of the Funds are vested in the Executive Board of the Louisiana Municipal Association (LMA). LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Funds. The Funds and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net position is available only to the respective entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14. LMA did not receive any state or federal funding during the year ended December 31, 2017.*

***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:

*The Funds do not have personnel and do not maintain written policies or procedures, instead they follow the policies and procedures of LMA.*

- a) **Budgeting**, including preparing, adopting, monitoring, and amending the budget.

*Not applicable, see above.*

- 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 or state purchasing rules and regulations; and (5) documentation required to be maintained for all bids and price quotes.

*Not applicable, see above.*

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

*Not applicable, see above.*

- d) **Receipts**, including receiving, recording, and preparing deposits.

*Not applicable, see above.*

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

*Not applicable, see above.*

- 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.

*Not applicable, see above.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

- 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.

*Not applicable. The Entity does not have any active credit cards, bank debit cards, fuel cards or P-Cards.*

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

*Not applicable, see above.*

- 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.

*Not applicable, see above.*

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

*Not applicable, see above.*

***Board (or Finance Committee, if applicable)***

---

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

*No exceptions noted.*

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and other major funds. If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

*No exceptions noted.*

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

*No exceptions noted.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

***Bank Reconciliations***

---

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

*No exceptions noted.*

4. Using the listing provided by management, select all of the Entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

*From the listing provided, we selected 5 accounts and obtained the bank reconciliations for each of the twelve months ending December 31, 2017, resulting in 60 bank reconciliations obtained and subjected to the below procedures.*

- a) Bank reconciliations have been prepared;

*No exceptions noted.*

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation;

*No exceptions noted.*

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

*A total of 34 bank reconciliations included reconciling items outstanding for more than 6 months. There was no documentation of management's research of these reconciling items.*

***Collections***

---

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

*No exceptions noted.*

6. Using the listing provided by management, select all of the Entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. For each cash collection location selected:

*One Fund has a lockbox and the other four Funds have one cash location site.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

- a. Obtain existing documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is 1) bonded, 2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by a board member or an outside party) and 3) not required to share the same cash register or drawer.

- 1) *The employee is bonded.*
- 2) *Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank and recording the related transaction. Another employee reconciles the bank account. Exception noted.*
- 3) *Not applicable due to only one cash location.*

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

*No exceptions noted.*

- c. Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

- Using Entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day.

*No exceptions noted.*

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

*No exceptions noted.*

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the Entity has a process specifically defined (identified as such by the Entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation of receipt number sequences, reasonableness of cash collections based on licenses issued) by a person who is not responsible for collections.

*No exceptions noted.*

LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017

Schedule A

*Disbursements – Other General*

---

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

*No exception noted.*

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the Entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

*No exceptions noted.*

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

*No exceptions noted.*

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order (P.O.), or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

*No exceptions noted.*

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

*The person responsible for processing payments has access to add vendors. Exception noted.*

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

*No exceptions noted.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

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

*No exceptions noted.*

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

*The signature stamp is not kept under the control of the signer. It is maintained by the accountant. Signed checks are returned to the accountant to scan before being mailed out by the accountant. Exception noted.*

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

---

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

*The Entity does not have any active credit cards, bank debit cards, fuel cards or P-Cards.*

15. Using the listing prepared by management, randomly select ten cards (or at least one-third if the Entity has less than ten cards that were used during the fiscal period. Obtain the monthly statements, or combined statements with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

- a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

*Not applicable.*

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

*Not applicable.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

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

a) For each transaction, report whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased).

*Not applicable.*

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

*Not applicable.*

- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

*Not applicable.*

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

*Not applicable.*

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

*Not applicable.*

***Travel and Expense Reimbursement***

---

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

*Not applicable, see #1 above.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

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

*Not applicable, see #1 above*

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

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the Entity does not have written policies, compare to the PPM 49 rates (#18 above) and report each reimbursement that exceeded those rates.

*Not applicable, see #1 above.*

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased.
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance).

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

***Contracts***

---

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

*No exceptions noted.*

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

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

*No exceptions noted.*

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code (bid law) and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the Entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder). *Not applicable.*
- If no, obtain supporting contract documentation and report whether the Entity solicited quotes as a best practice.

*Of the 5 contracts selected for testing, none were subject to bid law.*

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

*No exceptions noted.*

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

*No exceptions noted.*

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law.

*No exceptions noted.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

***Payroll and Personnel***

---

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

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

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, select 25 employees and:

- a) Report whether all selected employees documented their daily attendance and leave (e.g., vacation, sick, compensatory).

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

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

*Not applicable, see #1 above.*

***Ethics***

---

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

*Not applicable, see #1 above.*

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

*Not applicable, see #1 above.*

***Debt Service***

---

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

*Not applicable.*

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

*Not applicable.*

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

*Not applicable.*

**LOUISIANA MUNICIPAL ASSOCIATION  
INSURANCE RISK POOLS  
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS  
DECEMBER 31, 2017**

Schedule A

***Other***

---

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

*No exceptions noted.*

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

*No exceptions noted.*

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

*No exceptions noted.*

# LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

• WORKERS COMPENSATION FUND • LIABILITY FUND • HEALTH AND ACCIDENT FUND •

700 North 10th Street • Post Office Box 4327 • Baton Rouge, Louisiana 70821

June 26, 2018

## Corrective Action Response to 2017 Statewide AUPs

We have done a preliminary review of the recommendations provided in the AUP results. It appears that we only had a few exceptions noted in the report. Of the exceptions noted we would like to address items 4C: Bank Reconciliations and 6A: Collections.

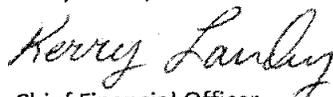
**4C:** *A total of 34 bank reconciliations included reconciling items outstanding for more than 6 months. There was no documentation of management's research of these reconciling items.*

Management Response: All reconciling items older than 6 months were researched, but written documentation was not kept. We will be sure to document all future research relative to outstanding checks or any other reconciling items. We have already initiated these improvements and expect much better results in year 2 of the Statewide AUP process.

**6A: 2)** *Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank and recording the related transaction. Another employee reconciles the bank account. Exception noted.*

Management Response: Management believes that there are adequate controls in place to prevent misappropriation. Clerk 2 opens all mail and prepares checks for deposit. Clerk 2 then gives checks to Clerk 1 who actually deposits the checks using a bank remote deposit check scanner. Once all checks have been scanned, a batch report is printed and given back to Clerk 2 for approval. Clerk 1 enters the deposit into the A/R module and it is then reviewed, approved and transferred into accounting system by Clerk 2. The Sr. Accountant prepares the bank reconciliations monthly. The CFO Reviews and approves all bank reconciliations.

Kerry Landry

  
Chief Financial Officer

Administered by the Louisiana Municipal Association

(225) 344-5001

(800) 234-8274

FAX (225) 344-3057