
LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of the
Louisiana Patient's Compensation Fund Oversight Board
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying statements of net position of Louisiana Patient's Compensation Fund Oversight Board (the Board), as of the June 30, 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, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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 of 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. These 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 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.



Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Louisiana Patient's Compensation Fund Oversight Board as of June 30, 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, schedule of employer's proportionate share of net pension liability, schedule of employer's contributions and schedule of funding progress for other post-employment benefit plans on pages 4 through 8 and pages 38 through 40, respectively, 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 Matters - Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Board's financial statements as a whole. The accompanying other supplementary information, which includes the schedule of per diem paid to board members and the schedule of compensation, benefits and other payments to the executive director on pages 42 and 43 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying other supplementary information 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2017 on our consideration of the Board's internal control structure 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 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 Board's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 30, 2017

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD
Management's Discussion and Analysis
JUNE 30, 2017
(UNAUDITED)

The Louisiana Patient's Compensation Fund Oversight Board (the Board) was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statute 40:1231.1 – 40:1237.4, and is domiciled in East Baton Rouge Parish. The Board is comprised of nine members representing different classes of health care providers and insurance industry representatives in Louisiana.

The purpose of the Board is to provide affordable medical malpractice coverage to all private health care providers and to provide a certain, stable source of compensation for legitimate injured parties of medical malpractice in the State of Louisiana. The Board levies surcharges on private sector health care providers enrolled with the Board to provide just compensation to patients and healthcare recipients suffering losses, damages, or expenses as a result of professional malpractice by health care providers in the State of Louisiana and the Board's administrative expenses.

Management's Discussion and Analysis of the Louisiana Patient's Compensation Fund Oversight Board financial performance presents a narrative overview and analysis of the Board's financial activities for the year ended June 30, 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the Board's financial statements.

FINANCIAL HIGHLIGHTS

The Board's assets consist primarily of cash and investments in mutual funds. The Board's liabilities are comprised primarily of estimated loss reserves for medical malpractice benefits for covered healthcare providers.

- The Board's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of fiscal year 2017 by \$247,045,062, a net increase of \$56,647,317 during the year. The prior year reflected a net position of \$190,397,745.
- The Board's primary source of operating revenues is from surcharge assessments of enrolled participants which increased during 2017. The increase resulted from greater member participation over prior year, which more than offset overall surcharge rate reductions of 1.2% implemented during the year.
- Net investment income for the 2017 fiscal year was \$30,989,232 and consisted of net realized losses and unrealized appreciation of invested assets of \$9,894,732, interest and dividend income earned of \$22,061,717, and expenses of \$967,217. Net investment income related to the Board's investment portfolio increased by approximately 2.7% from the fiscal year 2016. The Board has continued to implement a new investment policy of a more diversified, professionally managed investment portfolio of fixed income and equity securities.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

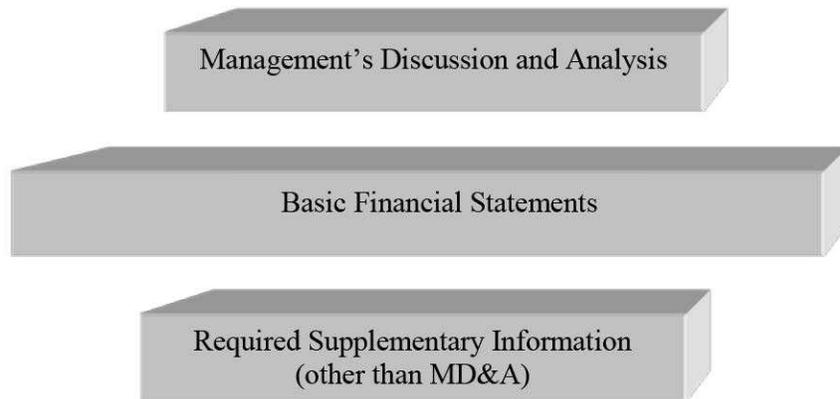
JUNE 30, 2017

(UNAUDITED)

- Operating expenses consist primarily of incurred claims and claims adjustment expenses. The Board's claims expense during the current year increased by approximately 5.5% over to the prior year. The number of new claims incurred by the Board increased slightly in fiscal year 2017. Additionally, the favorable development of \$19.1 million emerging during the current year from re-estimation of reserves associated with losses incurred during prior years was less than the favorable development emerging during the prior year, of \$22.4 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic illustrates the minimum requirements for Special Purpose Governments Engaged in Business-Type Activities established by Governmental Accounting Standards Board Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.



These financial statements consist of three sections - Management's Discussion and Analysis (MD&A; this section), the Basic Financial Statements (including the notes to the financial statements), and Required Supplementary Information (other than MD&A).

Basic Financial Statements

The basic financial statements present information for the Board as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources separately. The difference between assets plus deferred outflows and liabilities plus deferred inflows is net position, which may provide a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Board's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD
Management's Discussion and Analysis
JUNE 30, 2017
(UNAUDITED)

The Statement of Cash Flows presents information showing how the Board's cash changed as a result of current year operations. The cash flow statement is prepared using the direct method and includes the reconciliation of operating income to net cash provided by operating activities (indirect method) as required by GASB 34.

FINANCIAL ANALYSIS OF THE ENTITY

Condensed Statements of Net Position
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash and invested assets	\$ 1,100,398,000	\$ 1,040,262,000
Other assets	<u>9,044,000</u>	<u>8,539,000</u>
Total assets	<u>1,109,442,000</u>	<u>1,048,801,000</u>
Deferred outflows	<u>2,595,000</u>	<u>1,157,000</u>
Claims payable	778,666,000	774,794,000
Other liabilities	<u>86,078,000</u>	<u>84,547,000</u>
Total liabilities	<u>864,744,000</u>	<u>859,341,000</u>
Deferred inflows	<u>248,000</u>	<u>219,000</u>
Net position	<u>\$ 247,045,000</u>	<u>\$ 190,398,000</u>

The Board maintains an investment policy consisting of a diversified investment portfolio of fixed income and equity securities. The Board's primary liability represents reserve liabilities for covered claims which are estimated each year using widely accepted actuarial valuation methodologies. The nature of the Board's covered claims often requires extended periods to adjudicate and make benefit payments.

The Board's operations resulted in an increase in net position of \$56,647,317 during the year ended June 30, 2017. The favorable operating results are attributed to operating revenues exceeding operating expenses by \$25,658,085, plus net investment income of \$30,989,232.

The Board incurred claims that relate to the current year of approximately \$137,499,000 and \$134,595,000, for the years ended June 30, 2017 and 2016, respectively. Favorable development related to reserves associated with losses incurred in prior years of approximately \$19,119,000 and \$22,385,000 resulted in net incurred claims of approximately \$118,380,000 and \$112,210,000 for the years ended June 30, 2017 and 2016, respectively.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD
Management's Discussion and Analysis
JUNE 30, 2017
(UNAUDITED)

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position
for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 149,890,000	\$ 148,774,000
Operating expenses	<u>124,232,000</u>	<u>117,444,000</u>
Operating income	25,658,000	31,330,000
Non-operating investment income	<u>30,989,000</u>	<u>30,150,000</u>
Net increase in net position	<u>\$ 56,647,000</u>	<u>\$ 61,480,000</u>

The Board's total operating revenues consisted primarily of surcharge revenues from enrolled participants. Surcharge revenues increased during the year ended June 30, 2017, due to an increase in participants, which were partially offset by an overall surcharge rate reduction implemented effective September 2016. It was expected that the rate reduction would reduce surcharge revenues by approximately 1.2% on an annual basis. Subsequent to June 30, 2017, the Board has again implemented surcharge rates which are expected to reduce overall surcharge rates by approximately 9% beginning in September 2017.

Operating expenses consist primarily of claims related expenses. Claims-related expenses increased during the year ended June 30, 2017, due to increases in the number of new claims incurred, which were partially offset by decreases in the estimated cost associated with reserves for prior year claims. The Board's claims expense incurred during 2017 increased to 79.1% of surcharge revenues earned compared to 75.6% during 2016. The loss ratio was impacted by the changes in loss reserve estimates described previously.

Net investment income increased \$838,821 during the year ended June 30, 2017 as compared to 2016, primarily due to more favorable changes in the fair value of the Board's investment portfolio during the current year. The Board's investment portfolio experienced overall increases in fair value in the current year due to overall market conditions. Changes in estimated fair values of investments each year are included in net investment income and result from changes in overall interest rate and credit market conditions.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD
Management's Discussion and Analysis
JUNE 30, 2017
(UNAUDITED)

Capital Assets

At June 30, 2017, the Board had \$30,609 invested in capital assets, net of depreciation, including equipment and IT systems necessary to carry out the Board's activities.

Debt

The Board had no bonds and notes outstanding at June 30, 2017 or 2016.

The Board has established estimated reserve liabilities for claims and judgments of \$778,666,000 at June 30, 2017 compared with \$774,794,000 at June 30, 2016. These reserve obligations are actuarially estimated using the best information available and are subject to revisions to those estimates. The Board expects these obligations to become due and paid in amounts consistent with recent years as described in Note 6 to the financial statements.

Other long-term obligations include accrued compensated absences, other post-employment benefits, and net pension liability.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board's appointed officials considered the following factors and indicators when setting next year's budget, rates, and fees:

- Annual actuarial report recommending rates
- Prior year budget and actual results
- Anticipated changes in authorized benefit costs

The Board approved changes in its surcharge rates to members effective September 2, 2017. The new surcharge rates are expected to reduce all coverage categories and to reduce overall surcharge rates by approximately 9% beginning in September 2017.

The Board's investment portfolio is comprised primarily of investments in fixed income and equity securities. The investment portfolio is subject to fluctuations in value due to market and economic conditions which are outside of management's control. The fair value of the Board's investments can be particularly sensitive to changes in overall market interest rates.

**CONTACTING THE LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD
MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Board's finances and to show the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director, Louisiana Patient's Compensation Fund Oversight Board, Post Office Box 3718, Baton Rouge, Louisiana, 70821.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Assets and Deferred Outflows		
Cash and cash equivalents (note 2)	\$ 60,338,971	\$ 71,454,385
Investments (note 3)	1,039,958,716	968,718,059
Investments, restricted	99,976	89,082
Total cash and invested assets	<u>1,100,397,663</u>	<u>1,040,261,526</u>
Receivables (note 4)	9,014,236	8,528,368
Capital assets, net of depreciation (note 5)	30,609	10,816
Total other assets	<u>9,044,845</u>	<u>8,539,184</u>
Deferred outflows of resources (note 7)	<u>2,594,860</u>	<u>1,157,508</u>
Total assets and deferred outflows	<u>\$ 1,112,037,368</u>	<u>\$ 1,049,958,218</u>
Liabilities and Deferred Inflows		
Claims payable (note 6)	\$ 778,666,000	\$ 774,794,000
Unearned revenues (note 11)	68,375,195	68,588,592
Refunds payable (note 11)	2,891,087	3,262,047
Accounts payable and accrued expenses (note 10)	728,087	806,336
OPEB payable (note 8)	4,088,500	3,858,400
Net pension liability (note 7)	9,995,513	8,031,835
Total liabilities	<u>864,744,382</u>	<u>859,341,210</u>
Deferred inflows of resources (note 7)	<u>247,924</u>	<u>219,263</u>
Net Position		
Net investment in capital assets	30,609	10,816
Restricted net position (note 13)	99,976	89,082
Unrestricted net position	246,914,477	190,297,847
Total net position	<u>247,045,062</u>	<u>190,397,745</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,112,037,368</u>	<u>\$ 1,049,958,218</u>

See accompanying notes to these financial statements.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues		
Surcharges	\$ 149,598,146	\$ 148,452,015
Filing fees	291,632	322,313
Total operating revenues	<u>149,889,778</u>	<u>148,774,328</u>
Operating expenses		
Claims and claims adjustment expenses	118,380,094	112,209,972
Personnel expenses	4,811,302	4,102,825
Operating services	658,391	681,142
Professional services	321,198	314,046
Supplies	18,461	24,784
Travel	20,448	34,837
Capital outlay	11,073	70,168
Depreciation	10,726	6,029
Total operating expenses	<u>124,231,693</u>	<u>117,443,803</u>
Operating income	<u>25,658,085</u>	<u>31,330,525</u>
Non-operating revenues		
Investment income, net (note 3)	30,989,232	30,150,411
Total non-operating revenues	<u>30,989,232</u>	<u>30,150,411</u>
Change in net position	<u>56,647,317</u>	<u>61,480,936</u>
Net position, beginning of year	<u>190,397,745</u>	<u>128,916,809</u>
Net position, end of year	<u>\$ 247,045,062</u>	<u>\$ 190,397,745</u>

See accompanying notes to these financial statements.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Cash received from covered enrollees and customers	\$ 149,335,905	\$ 148,131,005
Cash paid for benefit of claimants and service providers	(114,508,094)	(95,824,972)
Cash paid to suppliers for goods and services	(1,112,258)	(6,633,656)
Cash paid to employees for services	(4,021,777)	(4,012,475)
Net cash provided by operating activities	29,693,776	41,659,902
Cash flows from investing activities		
Purchases of investment securities	(293,960,078)	(209,466,480)
Proceeds from sale/redemption of investment securities	236,105,739	142,998,777
Interest and dividends earned on investment securities, net	17,075,668	21,715,032
Net cash used in investing activities	(40,778,671)	(44,752,671)
Cash flows from capital and related financing activities		
Purchases of capital assets	(30,519)	-
Net cash used in capital and related financing activities	(30,519)	-
Net decrease in cash and cash equivalents	(11,115,414)	(3,092,769)
Cash and cash equivalents, beginning of year	71,454,385	74,547,154
Cash and cash equivalents, end of year	\$ 60,338,971	\$ 71,454,385

See accompanying notes to these financial statements.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 25,658,085	\$ 31,330,525
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	10,726	6,029
Decrease in accounts receivable	30,484	7,440,302
(Decrease) increase in accounts payable	(82,687)	14,699
Increase in accrued payroll and related benefits	21,191	26,446
Decrease in unearned revenue	(213,397)	(7,956,450)
(Decrease) increase in accrued compensated absences	(16,753)	4,424
Increase in OPEB payable	230,100	239,900
Increase (decrease) in pension expenses	554,987	(180,420)
Increase in liability for claims reserve	3,872,000	16,385,000
Decrease in other liabilities	(370,960)	(5,650,553)
	<u>\$ 29,693,776</u>	<u>\$ 41,659,902</u>
Net cash provided by operating activities	<u>\$ 29,693,776</u>	<u>\$ 41,659,902</u>

See accompanying notes to these financial statements.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Entity

The Louisiana Patient's Compensation Fund Oversight Board (the Board) was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statute 40:1231.1 – 40:1237.4, and is domiciled in East Baton Rouge Parish. The Board is governed by a board of nine members representing different classes of health care providers and insurance industry representatives in Louisiana.

The purpose of the Board is to provide affordable medical malpractice coverage to all private health care providers and to provide a certain, stable source of compensation for legitimate injured parties of medical malpractice in the State of Louisiana. The Board levies surcharges on private sector health care providers enrolled with the Board to provide just compensation to patients and healthcare recipients suffering losses, damages, or expenses as a result of professional malpractice by health care providers in the State of Louisiana and the Board's administrative expenses.

In October 2011, a Louisiana constitutional amendment was passed by the voters of Louisiana which, among other things, provided that the funds of the Board are to be private custodial funds which cannot be appropriated by the Louisiana Legislature for purposes other than administering and paying claims of the Board. This law also explicitly provides that the State of Louisiana does not back the Board with its full faith and credit and it is not responsible for any financial obligations of the Board. In the event the Board is liquidated or dissolved, any remaining funds after the payment of all claims and obligations are to inure to benefit of the State of Louisiana.

Basis of Presentation

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

Reporting Entity

Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statement 61, establishes criteria for determining the governmental reporting entity and component units that should be included within a reporting entity. Under provisions of this Statement, the Board is considered a primary government, since it is a special purpose government that has a separately appointed governing body, is legally separate, and is fiscally independent of other state or local governments. As used in GASB Statement 61, fiscally independent means that the Board may, without the approval or consent of another governmental entity, determine or modify its own budget, levy its own taxes or set rates or charges, and issue bonded debt. The Board also has no *component units*, defined by the standards as other legally separate organizations for which the elected Board members are financially accountable. There are no other primary governments with which the Board has a significant relationship. The Board is not considered a component unit of any other entity.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Basis of Accounting

The Board 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 Board 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 Board 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.

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. 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 (GASB) 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements*.

Net Position

The Board has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provided guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. The statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position (continued)

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt. Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating either restricted or unrestricted net position, depending upon whether the unspent amounts are restricted.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

Operating / Non-Operating Revenues and Expenses

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

The Board assesses a surcharge to enrolled health care providers based on an amount actuarially estimated for the anticipated covered claims and defense costs of the Board to provide coverage to health care providers. The surcharge rate is evaluated on an annual basis and adjusted based on the approval of the Board. Surcharges are recognized as revenue over the term of the coverage agreement as they are earned. Any adjustments to a covered provider's annual surcharge are considered to be changes in estimates and are recognized in the period they become known. The Board incurs insignificant acquisition costs which are expensed as incurred.

The Board also collects filing fees for medical review panels and other services which are recognized as revenues as they are collected.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments

Cash includes petty cash, demand deposits and short term certificates of deposit. The Board may invest in securities including United States Treasury obligations, United States government agency obligations, direct security repurchase agreements, high quality corporate debt securities, or in eligible mutual funds that invest in these types of securities. The Board may also invest no more than twenty-five percent of its investment portfolio in equity securities subject to certain other limitations. Investments are recorded at the estimated fair value of the respective securities in the statement of net position. 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.

Capital Assets

Capital assets are recorded at cost, if purchased or constructed. Assets acquired through contributions are capitalized at their estimated fair value, if available, or at estimated fair value or cost to construct at the date of the contribution. Furniture and equipment includes all items valued over \$5,000. Assets are depreciated using the straight-line method over the useful lives of the assets which vary from 5 to 10 years.

Compensated Absences

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. Compensated absences are computed in accordance with GASB Codification Section C60, and are recognized as an expense and liability in the financial statements when incurred over the employee service period.

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned. Upon termination or transfer, an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. Compensatory leave is computed in accordance with GASB Codification Section C60.105, and is recognized as an expense and liability in the financial statements when incurred.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unpaid Claims Liability

The Board provides medical malpractice excess coverage for claims incurred during the period of coverage provided to participants. Coverage can be obtained from the Board on a claims-made or occurrence basis and to cover tail obligations. The Board 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 for 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 and the nature and severity of the claimed loss and damages asserted. Because ultimate claims costs depend on complex factors such 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 coverage such as medical malpractice liability. Claims liabilities are recomputed annually 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 on actual historical data that reflects past inflation, trends in the commercial medical malpractice insurance industry, 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 additional information becomes available and are considered changes in estimates. The carrying amount of estimated liabilities for claims losses and claims expense are discounted to present value in the financial statements.

Income Taxes

The Board believes its activities are exempt from federal income taxes since the Board was created to carry out essential functions for the State of Louisiana. During 2014, the Board sought clarification from professional advisors and the Internal Revenue Service regarding its tax exempt status or whether its operations were excludable from the determination of any taxable income if the organization were deemed to be engaged in any taxable activities. The IRS declined to act on the Board's request. The Board, and its professional advisors, continues to maintain the Board is tax exempt and its operations are not taxable activities. Accordingly, the Board prepares its financial statements on this basis and does not recognize income taxes in these financial statements. Any change in the Board's position that its activities are exempt from federal income taxes, or changes in tax law or the Board's enabling statutes, could have a significant impact on the Board's financial position including the possibility of recognition of income tax obligations resulting from activities for prior periods.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Louisiana State Employees' Retirement System (LASERS) and additions to/deductions from LASERS' fiduciary net position have been determined on the same basis as they are reported to LASERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Risk

The Board's operations and covered malpractice risks are located only in the state of Louisiana. Accordingly, the Board's revenues and participant base are concentrated with healthcare providers operating in Louisiana. Covered benefit obligations due to claimants and beneficiaries are also concentrated to individuals in the state of Louisiana which are impacted by Louisiana legal requirements and judicial decisions.

Use of Estimates

Management of the Board 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 claim reserve liabilities, fair values of investments and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2017 and 2016, the Board had cash deposits with banks totaling \$22,492,135 and \$33,790,807, respectively. The Board also has custodial accounts at a bank trust department totaling \$37,846,836 and \$37,663,578, at June 30, 2017 and 2016, respectively, which are considered cash equivalents.

Cash and cash equivalents are stated at cost, which approximates market. The fair value of the pledged securities plus the federal security must at all times equal the amount on deposit with the fiscal agents. At June 30, 2017 and 2016, the Board has \$24,220,955 and \$36,395,191, respectively, in deposits (collected bank balances) that were insured or collateralized with securities held by the Board or its agent in the Board's name.

NOTE 3 – INVESTMENTS

The Board maintains its investment portfolio as authorized by Louisiana Revised Statute 40:123.44A(1), which includes professional investment managers and investment custodians to actively manage the investment portfolio under the oversight of the Board. The Board's investments are held in custodial accounts at a bank trust department in an account for the Board.

The Board has adopted investment policies and guidelines and retains professional investment managers to manage the investment portfolio. The Board's investment policy provides ranges of asset allocations which include the following target allocations at June 30, 2017:

Liquidity investments	3.0%
Fixed income – investment grade	73.5%
Fixed income – risk debt	7.5%
Equities – domestic	8.0%
Equities – international	4.5%
Commodities	3.5%
	<u>100.0%</u>

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS (continued)

The Board routinely evaluates the investment policy and above investment allocations.

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as required by GASB 72, *Fair Value Measurement and Application*. 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.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Investments classified in Level 3 of the fair value hierarchy are valued using unobservable inputs and are not directly corroborated with market data.

The Board's investment portfolio includes significant investments in mutual funds which are professionally managed. Mutual funds represent investments in pools of underlying investment securities selected by the investment manager. Investments in mutual funds may generally be liquidated with limited notice and may impose certain fees depending on the requirements of each mutual fund, which could depend on the time period the investment was owned. The Board's investments in mutual funds are categorized based on the stated primary objective and policy of each to invest in fixed income securities and investments in equity securities. Classifications below also reflect investments in pools of underlying financial securities with differing risk and investment characteristics.

Investment measured at net asset values (NAV) represent investments in limited liability companies which operate as commingled investment funds with specified investment objectives as described below. These investment vehicles provide investment managers more flexibility than conventional registered investment companies but are not regulated by the Securities and Exchange Commission and are not traded on a regular basis and are therefore not considered to be highly liquid.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – INVESTMENTS (continued)

The Board's investments are recorded 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 June 30, 2017 and 2016:

June 30, 2017:

	June 30, 2017	Fair Values		
		Level 1	Level 2	Level 3
Fixed Income Investments:				
U.S. Government obligations	\$ 161,411,615	\$ 161,411,615	\$ -	\$ -
Corporate bonds	215,566,796	-	215,566,796	-
U.S. Agency mortgage-backed securities	124,110,719	-	124,110,719	-
Other mortgage-backed securities	117,053,480	-	117,053,480	-
Commercial asset-backed securities	57,351,293	-	57,351,293	-
Municipal bonds	109,554,671	-	109,554,671	-
	<u>785,048,574</u>	<u>161,411,615</u>	<u>623,636,959</u>	<u>-</u>
Mutual funds primarily invested in:				
Diversified domestic equity securities	88,834,031	88,834,031	-	-
Diversified international equity securities	49,893,559	49,893,559	-	-
Commodities	33,872,490	33,872,490	-	-
	<u>172,600,080</u>	<u>172,600,080</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value Level	<u>\$ 957,648,654</u>	<u>\$ 334,011,695</u>	<u>\$ 623,636,959</u>	<u>\$ -</u>
Investments in investment pools Measured Net Asset Value:				
High yield bond	\$ 28,072,537	\$ -	\$ -	\$ -
High yield bank loans	54,237,525	-	-	-
Total Investments Measured Net Asset Value	<u>\$ 82,310,062</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Investments at Fair Value	<u>\$ 1,039,958,716</u>			

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – INVESTMENTS (continued)

June 30, 2016:

	June 30, 2016	Fair Values		
		Level 1	Level 2	Level 3
Fixed Income Investments:				
U.S. Government obligations	\$ 119,393,107	\$ 119,393,107	\$ -	\$ -
Corporate bonds	234,730,429	-	234,730,429	-
U.S. Agency mortgage-backed securities	136,310,054	-	136,310,054	-
Other mortgage-backed securities	125,759,834	-	125,759,834	-
Commercial asset-backed securities	60,084,156	-	60,084,156	-
Municipal bonds	52,969,441	-	52,969,441	-
	<u>729,247,021</u>	<u>119,393,107</u>	<u>609,853,914</u>	<u>-</u>
Mutual funds primarily invested in:				
High yield bond	26,443,147	26,443,147	-	-
High yield bank loans	51,102,138	51,102,138	-	-
Diversified domestic equity securities	81,170,758	81,170,758	-	-
Diversified international equity securities	44,740,434	44,740,434	-	-
Commodities	36,014,561	36,014,561	-	-
	<u>239,471,038</u>	<u>239,471,038</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value Level	<u>\$ 968,718,059</u>	<u>\$ 358,864,145</u>	<u>\$ 609,853,914</u>	<u>\$ -</u>

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

	Fair Value June 30, 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled Funds:				
High yield bond	\$ 28,072,537	\$ -	Daily	5 Days
High yield bank loans	54,237,525	\$ -	Month end	30 Days
	<u>\$ 82,310,062</u>			

High Yield Bond

The investment objective is to achieve total return of income and capital preservation by investing at least 90% of its available assets in high yield fixed income securities and bank loan interests, including secured and unsecured bank loans. However, no more than 10% of the assets at market value will comprise bank loans. The remaining portion of assets may be invested in investment grade securities and U.S. Treasury bills, notes, and bonds. The assets may also be invested in short-term collective fund of the custodian or another bank or trust company.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS (continued)

High Yield Bank Loan

The investment objective is to provide investors with current income and, in certain circumstances, capital appreciation. The investment seeks to achieve its objective by investing in a portfolio consisting primarily of senior secured loans. The investments may include, without limitation, subordinated high-yield loans, high-yield bonds, noninvestment grade fixed-income or debt securities and any other instruments determined by the investment manager to be consistent with investment objective. The investment will invest at least 90% of its net assets in high-yield loans.

At June 30, 2017 and 2016, the fixed income portfolio investment manager reported the total portfolio of \$785 million was invested within the investment policy guidelines with the following characteristics:

	<u>2017</u>	<u>2016</u>
Effective duration	4.1 years	3.4 years
Average maturity	5.5 years	4.6 years
Yield to maturity	2.3%	1.6%
Average credit quality	AA	AA

The following section describes the various types of investment related risks and the Board's exposure to each risk type.

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 used to assess credit risk on debt obligations. The Board's investment managers monitor credit ratings of the fixed income securities which vary from high quality U.S. Government debt objectives to BB with an average credit quality of AA at June 30, 2017.

<u>Standard & Poor's</u> <u>Rating</u>	<u>Percentage</u> <u>of portfolio</u>
AAA	15.5%
AA	58.4%
A	11.5%
BBB	14.0%
BB	0.6%

The Board's investments in mutual funds provide diversification of the amounts invested in each mutual fund due to the underlying pool of invested securities being invested in numerous individual investment securities. A portion of the Board's investment portfolio is invested in fixed income mutual funds with stated objectives to invest in securities which represent high yield corporate debt securities, which invest in higher yielding debt obligations of issuers with higher risk credit ratings.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS (continued)

The Board's investments include mutual funds and comingled funds which invest in pools of underlying bank loans which have varying underlying credit quality for each loan but are collectively rated "B" by Standards & Poor's. The Board also invests in mutual funds and comingled funds which invest in pools of high yield corporate bond securities which have varying credit quality for each issuer but are collectively rated "B" by Standards & Poor's. These types of investments are generally more susceptible to credit risk and losses.

The Board's investments in mutual funds invest in varying commodities or commodities linked instruments that do not typically obtain a credit rating and are considered to have greater credit risk which can be dependent on the ability of counter parties to fulfill their financial commitments.

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 overall market interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates and effective duration for debt instruments.

A summary of the estimated fair value of the Board's investments in debt instruments at June 30, 2017, by contractual maturity, is provided below as an indication of those securities to interest rate risks.

	<u>Estimated Fair Value</u>
Period to maturity:	
Six months	\$ 32,969,003
One calendar year	41,815,129
Calendar years two through six	254,983,524
Calendar years seven through ten	101,300,157
Beyond ten calendar years	55,465,270
Asset-backed securities	<u>298,515,491</u>
Total	<u>\$ 785,048,574</u>

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities have stated maturities, but the mortgage and other loans comprising these securities have continuous repayments with varying repayment patterns.

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 Board 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 Board, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Board's name.

The Board maintains all of its investments in a custodial account at Wells Fargo Bank trust department. The custodian bank also maintains insurance coverage.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 – INVESTMENTS (continued)

Net Investment Income

Net investment income for the years ended June 30, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income earned	\$ 22,061,717	\$ 23,157,790
Realized losses – net	(6,690,132)	(4,448,747)
Unrealized gains arising during the year - net	<u>16,584,864</u>	<u>12,408,554</u>
Investment income	31,956,449	31,117,597
Investment manager fees	(967,217)	(967,186)
Investment income - net	<u>\$ 30,989,232</u>	<u>\$ 30,150,411</u>

The Board's investment portfolio is recorded at fair value and the associated changes in fair values of all investments are included in net investment income each year as net unrealized gain or losses. The Board's overall investment portfolio experienced net unrealized gains during the year ended June 30, 2017, associated with changes in fair value of its portfolio, which is influenced by overall market interest rates and other market based influences and expectations outside of management's control. The Board's investment policies are based on long-term objectives and not market conditions, which are required to be reflected in net investment income in each accounting period.

NOTE 4 – RECEIVABLES

At June 30, 2017 and 2016, the Board had receivables comprised of the following:

	<u>2017</u>	<u>2016</u>
Surcharges receivable	\$ 4,976,540	\$ 4,849,825
Accrued investment income	4,037,696	3,521,343
Pending investment transaction	-	<u>157,200</u>
Total receivable	<u>\$ 9,014,236</u>	<u>\$ 8,528,368</u>

The Board generally receives surcharges collected by the healthcare provider's primary insurance carrier which are then remitted to the Board. The Board also bills and collects certain surcharges directly from healthcare providers. Surcharges receivable represent amounts due from healthcare providers at year end which are generally unsecured but collateralized by unearned surcharges as described at Note 11.

Accrued investment income represents interest and dividends earned on the Board's investment portfolio which have not been received at year end.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

June 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture & equipment	\$ 142,697	\$ 30,519	\$ 18,685	\$ 154,531
Less accumulated depreciation	(131,881)	(10,726)	(18,685)	(123,922)
Capital assets, net	<u>\$ 10,816</u>	<u>\$ 19,793</u>	<u>\$ -</u>	<u>\$ 30,609</u>

June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture & equipment	\$ 169,532	\$ -	\$ 26,835	\$ 142,697
Less accumulated depreciation	(152,687)	(6,029)	(26,835)	(131,881)
Capital assets, net	<u>\$ 16,845</u>	<u>\$ (6,029)</u>	<u>\$ -</u>	<u>\$ 10,816</u>

NOTE 6 – CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The Board 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 and the nature and severity of the claimed loss and damages asserted. Because ultimate 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 coverage such as medical malpractice liability. Claims liabilities are recomputed annually 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 on actual historical data that reflects past inflation, trends in the medical malpractice insurance industry, and on other factors that are considered to be appropriate modifiers of past experience. Because of the nature of the medical malpractice losses coverage provided by the Board, the Board is routinely involved in numerous malpractice-related claims and legal actions arising from the normal conduct of business. Management of the Board and its actuarial professionals regularly establish estimated liabilities for reported and unreported contingencies associated with these claims.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

The following represents changes in the Board's estimated liability for unpaid claims reserves during the years ended June 30, 2017 and 2016 (amounts in thousands):

	<u>2017</u>	<u>2016</u>
Liability for unpaid claims at beginning of year	\$ 774,794	\$ 758,409
Net incurred related to:		
Current year	137,499	134,595
Prior years	<u>(19,119)</u>	<u>(22,385)</u>
Total incurred	<u>118,380</u>	<u>112,210</u>
Net paid related to:		
Current year	6,790	8,112
Prior years	<u>107,718</u>	<u>87,713</u>
Total paid	<u>114,508</u>	<u>95,825</u>
Liability for unpaid claims at end of year	<u>\$ 778,666</u>	<u>\$ 774,794</u>

During the years ended June 30, 2017 and 2016, the Board experienced favorable development of approximately \$19.1 million and \$22.4 million, respectively, due to revised estimates of the ultimate costs necessary to satisfy the Board's claims obligations established in prior years. These improved estimates incorporate revised case reserve estimates, changes in trends of the Board's claims activity and overall changes in the commercial medical malpractice insurance industry. The favorable development during the years ended June 30, 2017 and 2016 was primarily related to covered physician reserves and slight favorable development emerging related to hospitals and other coverages.

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 process that reflects significant judgmental factors. Management believes that the aggregate loss reserves at June 30, 2017, are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through June 30, 2017, will not vary from the above estimates, and such difference could be significant.

The Board's estimated claims reserves have been discounted based on anticipated payout patterns and a discount rate assumption which management expects to approximate the investment earnings over the payout period of the claims obligations. The Board has utilized a discount rate assumption of 3.0%, which reduced the above reported claims reserve liability by \$148 million and \$145 million at June 30, 2017 and 2016, respectively.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – RETIREMENT SYSTEM

Plan Description

Employees of Louisiana Patient's Compensation Fund are provided with pensions through a cost-sharing multiple-employer defined benefit plan administered by the Louisiana State Employees' Retirement System (LASERS). Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S. 11:401) grants to LASERS Board of Trustees and the Louisiana Legislature the authority to review administration, benefit terms, investments, and funding of the plan. Detailed information about the pension plan's fiduciary net position is available in the separately issued LASERS 2014 Comprehensive Annual Financial Report at www.lasersonline.org.

Benefits Provided

The following is a summary description of the plan and its benefits and is provided for general information purposes only. Participants should refer to the appropriate statutes and plan documents for more complete information.

Retirement

The age and years of creditable service required in order for a member to retire with full benefits are established by statute, and vary depending on the member's hire date, employer, and job classification. The majority of LASERS rank and file members may either retire with full benefits at any age upon completing 30 years of creditable service or at age 60 upon completing five to ten years of creditable service, depending on their plan. Additionally, members may choose to retire with 20 years of service at any age, with an actuarially reduced benefit. The basic annual retirement benefit for members is equal to 2.5% to 3.5% of average compensation multiplied by the number of years of creditable service.

Average compensation is defined as the member's average annual earned compensation for the highest 36 consecutive months of employment for members employed prior to July 1, 2006. For members hired July 1, 2006 or later, average compensation is based on the member's average annual earned compensation for the highest 60 consecutive months of employment. The maximum annual retirement benefit cannot exceed the lesser of 100% of average compensation or a certain specified dollar amount of actuarially determined monetary limits, which vary depending upon the member's age at retirement. As an alternative to the basic retirement benefits, a member may elect to receive their retirement benefits under any one of six different options providing for reduced retirement benefits payable throughout their life, with certain benefits being paid to their designated beneficiary after their death.

Act 992 of the 2010 Louisiana Regular Legislative Session, changed the benefit structure for LASERS members hired on or after January 1, 2011. This resulted in three new plans: regular, hazardous duty, and judges. The new regular plan includes regular members and those members who were formerly eligible to participate in specialty plans, excluding hazardous duty and judges. The Board's employees are considered regular members of LASERS. Regular members are eligible to retire at age 60 after five years of creditable service and may also retire at any age, with a reduced benefit, after 20 years of creditable service. Average compensation will be based on the member's average annual earned compensation for the highest 60 consecutive months of employment for all three new plans. Members in the regular plan will receive a 2.5% accrual rate.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT SYSTEM(continued)

Retirement (continued)

Act 226 of the 2014 Louisiana Regular Legislative Session established new retirement eligibility for members of LASERS hired on or after July 1, 2015. Regular members under the new plan are eligible to retire at any age, with a reduced benefit, after 20 years of creditable service. Average compensation will be based on the member's average annual earned compensation for the highest 60 consecutive months of employment. Members in the regular plan will receive a 2.5% accrual rate.

A member leaving employment before attaining minimum retirement age, but after completing certain minimum service requirements, becomes eligible for a benefit provided the member lives to the minimum service retirement age, and does not withdraw their accumulated contributions. The minimum service requirement for benefits varies depending upon the member's employer and service classification but generally is ten years of service.

Deferred Retirement Benefits

The State Legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked.

Members eligible to retire and who do not choose to participate in DROP may elect to receive at the time of retirement an initial benefit option (IBO) in an amount up to 36 months of benefits, with an actuarial reduction of their future benefits. For members who selected the IBO option prior to January 1, 2004, such amount may be withdrawn or remain in the IBO account earning interest at a rate of one-half percent less than the System's realized return on its portfolio (not to be less than zero). Those members who select the IBO on or after January 1, 2004, are required to enter the SDP as described above.

Disability Benefits

Generally, active members with ten or more years of credited service who become disabled may receive a maximum disability retirement benefit equivalent to the regular retirement formula without reduction by reason of age. Upon reaching age 60, the disability retiree may receive a regular retirement benefit by making application to the Board of Trustees.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT SYSTEM (continued)

Survivor's Benefits

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the deceased. The deceased member who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18, or age 23 if the child remains a full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child.

The deceased regular member hired on or after January 1, 2011, must have a minimum of five years of service credit regardless of when earned or in order for a benefit to be paid to a minor child. The aforementioned minimum service credit requirements for a surviving spouse are 10 years, 2 years being earned immediately prior to death, and active state service at the time of death, or a minimum of 20 years of service credit regardless of when earned. A deceased member's spouse must have been married for at least one year before death.

Permanent Benefit Increases/Cost-of-Living Adjustments

As fully described in Title 11 of the Louisiana Revised Statutes, the System allows for the payment of permanent benefit increases, also known as cost-of-living adjustments (COLAs), that are funded through investment earnings when recommended by the Board of Trustees and approved by the State Legislature.

Contributions

Contribution requirements of active employees are governed by Section 401 of Title 11 of the Louisiana Revised Statutes (La. R.S. 11:401) and may be amended by the Louisiana Legislature. Employee and employer contributions are deducted from a member's salary and remitted to LASERS by participating employers.

The Board's contractually required composite contribution rate for the year ended June 30, 2017 was 35.8% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any Unfunded Actuarial Accrued Liability. Contributions to the pension plan from the Board were \$862,090 for the year ended June 30, 2017.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – RETIREMENT SYSTEM(continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Board reported a liability of \$9,995,513 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016, the most recent data available, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net Pension Liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Board's proportion was 0.12729%, which was a decrease of 0.0092% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Board recognized pension expense of \$1,027,377 plus the employer's amortization of change in proportionate share and differences between employer contributions and proportionate share of contributions which was \$389,700 for the year ended June 30, 2017.

At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,787	\$ (92,705)
Net difference between projected and actual earnings on pension plan investments	1,244,958	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	482,025	(155,219)
Board contributions subsequent to the measurement date	862,090	-
Total	<u>\$2,594,860</u>	<u>\$(247,924)</u>

Deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date of \$862,090 will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years ending:</u>	
June 30, 2018	\$ 197,163
June 30, 2019	197,163

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT SYSTEM(continued)

Actuarial Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2016, and 2015 are as follows:

Valuation Date	June 30, 2016 and 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Expected Remaining Service Lives	3 years.
Investment Rate of Return	7.75% per annum, net of investment expenses*.
Inflation Rate	3.0% per annum.
Mortality	Non-disabled members - Mortality rates based on the RP-2000 Combined Healthy Mortality Table with mortality improvement projected to 2015. Disabled members – Mortality rates based on the RP-2000 Disabled Retiree Mortality Table, with no projection for mortality improvement.
Termination, Disability, and Retirement	Termination, disability, and retirement assumptions were projected based on a five-year (2009-2013) experience study of the System's members.
Salary Increases	Salary increases were projected based on a 2009-2013 experience study of the System's members. The salary increase ranges for the Board's members have a lower range of 4.0% and an upper range of 13.0%
Cost of Living Adjustments	The present value of future retirement benefits is based on benefits currently being paid by the System and includes previously granted cost of living increases. The projected benefit payments do not include provisions for potential future increases not yet authorized by the System's Board of Trustees as they were deemed not to be substantively automatic.

*The investment rate of return used in the actuarial valuation for funding purposes was 8.15%, recognizing an additional 25 basis points for gain sharing and 15 basis points to offset administrative expenses.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.25% and an adjustment for the effect of rebalancing/diversification. The resulting expected long term rate of return is 8.25% for 2016. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation¹</u>	<u>Long-term Expected Real Rate of Return¹</u>
Cash	0%	-0.24%
Domestic equity	25%	4.31%
International equity	32%	5.48%
Domestic fixed income	8%	1.63%
International fixed income	6%	2.47%
Alternative investments	22%	7.42%
Global asset allocation	7%	2.92%
Total	<u>100%</u>	5.30%

¹For reference only: Target Allocation presented in LASERS 2016 CAFR, page 50, and Long-Term Expected Real Rate of Return, page 28.

Discount Rate

The discount rate assumption used to measure the total pension liability was 7.75% at June 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 – RETIREMENT SYSTEM (continued)

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the LASERS Net Pension Liability at June 30, 2017 using the discount rate of 7.75%, as well as what the Board's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate assumption that is one percentage-point lower (6.75%) or one percentage-point higher (8.75%) than the current rate assumption:

	<u>1.0% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1.0% Increase (8.75%)</u>
Employer's proportionate share of the net pension liability	\$ 12,280,413	\$ 9,995,513	\$ 8,054,065

Payables to the Pension Plan

The Board recorded accrued liabilities to the LASERS retirement system for the years ended June 30, 2017 and 2016, mainly due to the accrual for payroll of \$83,108 and \$81,740, respectively.

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Plan Description

The Board provides certain continuing health care and life insurance benefits for its eligible retired employees and their beneficiaries through participation in the State of Louisiana's health insurance plan administered by the Office of Group Benefits (OGB), an agent multiple-employer defined benefit plan. Louisiana Revised Statute 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the state legislature. The OGB does not issue a stand-alone report; however, OGB is included in the State of Louisiana's Comprehensive Annual Financial Report (CAFR) which may be obtained from the Office of Statewide Reporting and Accounting Policy's website at www.doa.la.gov/osrap, by writing to P.O. Box 94095, Baton Rouge, Louisiana 70804-9095, or by calling (225) 342-0708.

Funding Policy

Louisiana Revised Statute 42:801-883 assigns the authority to establish and amend the benefit provisions of the plan to the state legislature. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. Employees hired before January 1, 2002 pay approximately 25% of the cost of coverage (except single retirees under age 65 pay approximately 25% of the active employee cost). Employees hired on or after January 1, 2002 pay a percentage of the contribution rate based on years of service. The contribution rate ranges from 25% to 81%. Other post-employment benefits (OPEB) administered through the OGB are financed on a pay-as-you-go basis.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS
(continued)

Annual OPEB Cost

For the current and prior fiscal years, the Board's annual OPEB cost (expense) of \$321,900 and \$326,500, respectively was equal to the annual required contribution (ARC). The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are:

<u>Fiscal Year</u>	<u>Annual OPEB cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/17	\$ 321,900	28.5%	\$ 4,088,500
6/30/16	\$ 326,500	26.5%	\$ 3,858,400
6/30/15	\$ 307,700	19.7%	\$ 3,618,500

The funded status of the plan as of July 1, 2016 was as follows:

Actuarial accrued liability (AAL)	\$ 3,335,000
Actuarial value of plan assets	None
Unfunded actuarial accrued liability (UAAL)	\$ 3,335,000
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 2,495,000
UAAL as a percentage of covered payroll	134%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.8% investment rate of return (net of expenses) and an annual healthcare cost trend rate of 7.0% (pre-medicare) and 6.0% (medicare eligible) initially, reduced by decrements to an ultimate rate of 4.5% (pre-medicare and medicare eligible) and after fifteen years. The unfunded actuarial liability is shown using both a level dollar amount and a level percent of pay over an amortization period of thirty years in developing the annual required contribution.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – LEASE AND RENTAL COMMITMENTS

The Board enters into operating leases for office space. Lease and rental expenses for the years ended June 30, 2017 and 2016, totaled \$362,528 and \$370,145, respectively. Operating lease commitments for the next fiscal year total \$391,292. The Board has no capital leases.

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2017 and 2016, the Board had accounts payable and accrued expenses as follows:

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 315,921	\$ 398,608
Accrued wages payable	156,262	135,071
Accrued compensated absences	<u>255,904</u>	<u>272,657</u>
Total payables	<u>\$ 728,087</u>	<u>\$ 806,336</u>

NOTE 11 – UNEARNED REVENUES AND REFUNDS PAYABLE

The Board typically receives payment of surcharge revenues from the healthcare providers in advance of the period of coverage provided. The Board recognizes surcharges as revenues on a pro-rata basis over the period of coverage and benefits provided to the healthcare provider and records an unearned revenue liability for the portion of the surcharges collected or due which have not been earned and recognized as revenue. At June 30, 2017 and 2016, the Board had unearned revenues totaling \$68,375,195 and \$68,588,592, respectively, that represent unearned surcharges.

The Board may also receive cancellation notices or other changes in coverage benefits provided to healthcare providers which require the Board to refund previously collected surcharges. The Board recorded an estimated liability for refunds payable of \$2,891,087 and \$3,262,047 at June 30, 2017 and 2016, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

There are claims and suits pending against the Board arising from normal business operations, which in the opinion of management and legal counsel, are either without merit or will not have a material effect on the Board's financial position or results of operations. Management of the Louisiana Patient's Compensation Fund establishes estimated liabilities for reported and unreported claim contingencies. Management believes that the outcome of claims and any related legal proceedings will be provided for by the estimated liabilities and will not have a material adverse effect on the Board's financial position or results of operations.

**LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 – NET POSITION AND RESTRICTION BY ENABLING LEGISLATION

In October 2011, a Louisiana constitutional amendment was passed by the voters of Louisiana which, among other things, provided that the funds of the Board are to be private custodial funds which cannot be appropriated by the Louisiana Legislature for purposes other than administering and paying claims of the Board. This law also explicitly provides that the State of Louisiana does not back or support the obligations of the Board with its full faith and credit and it is not responsible for any financial obligations of the Board in any way. Accordingly, any deficits of the Board are to be satisfied only by future surcharges to enrollees, investment income, and management of claims expenses and administrative expense. In the event the Board is liquidated or dissolved, any remaining funds after the payment of all claims and obligations are to inure to the benefit of the State of Louisiana.

Net position reported on the Statement of Net Position at June 30, 2017 and 2016, includes \$99,976 and \$89,082, respectively which is restricted by LA Revised Statute 40:1231.7 as seed money for the inactive Louisiana Residual Malpractice Insurance Authority.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, November 30, 2017 and determined that there were no events that required additional disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION SCHEDULES

SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

Information about the employer's proportionate share of net pension liability and employer's contributions to the pension plan was prepared in compliance with GASB 68.

SCHEDULE OF FUNDING PROGRESS FOR THE OTHER POSTEMPLOYMENT BENEFIT PLAN

Information about the other post-employment benefit plan (OPEB) funding progress was prepared in compliance with GASB 45.

PER DIEM PAID BOARD MEMBERS

The schedule of per diem paid to Board members was prepared in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. Per diem payments are authorized by Louisiana Revised Statute 40.1231.4. Board members are paid \$75 per day for Board meetings and official business.

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO THE EXECUTIVE DIRECTOR

The schedule of compensation, benefits and other payments to the Executive Director was prepared in compliance with Act 462 of the 2014 Session of the Louisiana Legislature.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

**SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.12729%	0.11809%	0.12067%
Employer's proportionate share of the net pension liability	\$9,995,513	\$8,031,835	\$7,545,427
Employer's covered employee payroll	\$2,373,072	\$2,287,385	\$2,402,853
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	421%	351%	314%
Plan fiduciary net position as a percentage of the total pension liability	57.7%	62.7%	65.0%

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

* The amounts presented have a measurement date of the previous fiscal year end.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
AS OF JUNE 30, 2017

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Employee Payroll</u>	<u>Contributions as a % of Covered Employee Payroll</u>
2017	\$862,090	\$862,090	\$ -	\$2,433,511	35.40%
2016	\$875,540	\$875,540	\$ -	\$2,373,072	36.90%
2015	\$840,319	\$840,319	\$ -	\$2,287,385	36.70%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2017

Changes in Benefit Terms include:

1. A 1.5% COLA, effective July 1, 2016, provided by Acts 93 and 512 of the 2016 Louisiana Regular Legislative Session, and,
2. Added benefits for members of the Harbor Police Retirement System which was merged with LASERS effective July 1, 2015 by Act 648 of 2014.

Changes of Assumptions:

There were no changes of benefit assumptions for the year ended June 30, 2017.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF FUNDING PROGRESS FOR OPEB BENEFITS
AS OF JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage Of Covered Payroll
7/1/16	NONE	\$3,335,000	\$3,335,000	0%	\$2,495,000	134%
7/1/15	NONE	\$3,027,000	\$3,027,000	0%	\$2,353,800	129%
7/1/14	NONE	\$2,764,200	\$2,764,200	0%	\$2,318,200	119%
7/1/13	NONE	\$3,715,500	\$3,715,500	0%	\$2,407,000	154%
7/1/12	NONE	\$3,422,500	\$3,422,500	0%	\$2,130,600	161%
7/1/11	NONE	\$3,451,600	\$3,451,600	0%	\$1,922,000	180%
7/1/10	NONE	\$3,506,700	\$3,506,700	0%	\$1,895,200	185%
7/1/09	NONE	\$4,579,500	\$4,579,500	0%	\$1,911,700	240%

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Amount</u>
Patrick C. Breaux	\$ 2,775
Clark Cosse', III	3,000
Vincent Culotta	2,100
Manuel DePascual	2,700
Joseph Donchess (term expired December 2016)	1,200
Christopher Foret	2,775
Kent Guidry	2,775
James Hritz	2,625
Lesley Meng	2,550
Marcus C. Naquin (term began January 2017)	<u>1,425</u>
Total	<u>\$23,925</u>

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO THE EXECUTIVE DIRECTOR
FOR THE YEAR ENDED JUNE 30, 2017

Executive Director - Kenneth Schnauder

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 171,600
Benefits - insurance	10,785
Benefits - retirement	61,525
Benefits - other	324
Travel	830
Conference travel	107
Continuing professional education fees	<u>25</u>
	<u>\$ 245,196</u>

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

To the Board of the
Louisiana Patient's Compensation Fund Oversight Board
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and other standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Louisiana Patient's Compensation Fund Oversight Board (the Board) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated November 30, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to 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 Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 30, 2017

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

LOUISIANA LEGISLATIVE AUDITOR – STATEWIDE
AGREED-UPON PROCEDURES REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of the Louisiana Patient's Compensation Fund Oversight Board and the Louisiana Legislative Auditor

We have performed the procedures enumerated in Schedule A, which were agreed to by Louisiana Patient's Compensation Fund Oversight Board (the Board) and the Louisiana Legislative Auditor on the control and compliance areas identified in the Louisiana Legislative Auditor's Statewide Agreed-Upon Procedures for the fiscal period July 1, 2016 through June 30, 2017. The Board's management is responsible for those control and compliance areas identified in the Statewide Agreed-Upon Procedures.

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 findings 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 control and compliance areas identified in the Statewide Agreed-Upon Procedures. 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 to describe the scope of testing performed on those control and compliance areas identified in the Statewide Agreed-Upon Procedures, 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 Louisiana Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 30, 2017

LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD
AGREED-UPON PROCEDURES AND ASSOCIATED FINDINGS
JUNE 30, 2017

Schedule A

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read "no exception noted". If not, then a description of the exception ensues.

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:

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

The Board's written policy does not specifically address documentation regarding monitoring and amending the budget.

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

No exceptions noted.

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

No exceptions noted.

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

No exceptions noted.

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

No exceptions noted.

- 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.

No exceptions noted.

- 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.

No exceptions noted.

LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD
AGREED-UPON PROCEDURES AND ASSOCIATED FINDINGS
JUNE 30, 2017

Schedule A

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

No exceptions noted.

- 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.

No exceptions noted.

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

No exceptions noted.

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

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.

Bank Reconciliations

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

A listing of bank accounts was provided and included a total of four bank accounts. No exceptions were noted as a result of performing this procedure.

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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, P&N selected three accounts and obtained the bank reconciliations for each of the twelve months ended June 30, 2017, resulting in thirty six bank reconciliations obtained and subjected to the below procedures.

1. Bank reconciliations have been prepared;

No exceptions noted.

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

No exceptions noted

3. 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.

Of the 3 bank accounts selected, 3 accounts with a total of 14 bank reconciliations had reconciling items that have been outstanding for more than 6 months. There was no documentation evidencing that these reconciling items were researched for proper disposition.

Collections

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

A listing of cash collection locations was provided and included one cash collection location. No exceptions were noted as a result of performing this procedure.

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). **For each cash collection location selected:**

From the listing provided, P&N selected the only location and performed the procedures noted below. No exceptions were noted as a result of performing this procedure.

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

Not applicable.

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

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 the collection data, P&N determined the highest collection week during the year ended June 30, 2017 for the collection location and performed the procedures noted below.

- Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.
- 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, etc.) by a person who is not responsible for collections.

No exceptions noted.

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Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

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

The listing of general ledger activity for all disbursements during the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

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:

P&N randomly selected 25 disbursements and performed the procedures below.

- 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 were noted.

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

No exceptions were noted.

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

No exceptions were 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.

No exceptions 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.

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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.

No exceptions 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.

A listing of cards was provided and included a total of four cards. No exceptions were noted as a result of performing this procedure.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and perform the procedures below.

P&N selected two credit cards and performed the procedures noted below.

- 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.

No exceptions noted.

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

No exceptions noted.

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16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 3 cards selected (i.e. each of the 3 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)

No exceptions noted.

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

No exceptions noted.

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

No exceptions noted.

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.

No exceptions noted.

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.

No exceptions noted.

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.

A listing of general ledger activity for all travel and related expense reimbursements, by person, during the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

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

No exceptions noted.

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

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

No exceptions noted.

- 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).

No exceptions noted.

- 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.

No exceptions noted.

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

No exceptions noted.

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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.

A listing of contract payments for all contracts in effect during the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

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

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

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.

None of the 5 contracts selected for testing were subject to bid law. Management has policies and procedures to select vendors based on various criteria.

- 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.

One of the five contracts selected for testing was amended to state that the maximum amount of the contract is \$1,475,000. The original contract terms provided for such an amendment.

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

No exceptions noted.

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

No exceptions noted.

Payroll and Personnel

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

A listing of employees was provided by management. A random sample of five employees was selected and subjected the procedures below.

- 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.

No exceptions noted.

- 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.

No exceptions noted.

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

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

No exceptions noted.

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

No exceptions noted.

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- 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.

No exceptions noted.

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

No exceptions noted.

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.

No exceptions noted.

Ethics (excluding nonprofits)

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

No exceptions noted.

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.

No ethics violations reported.

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.

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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.

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) 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.

Patient's Compensation Fund
State of Louisiana
Division of Administration

JOHN BEL EDWARDS
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December 5, 2017

To: Ken Schnauder
Executive Director

From: Barbara Woodard *B Woodard*
Administrative Director

Re: Management response regarding the 2017 AUP Audit Report

The Corrective Action Response regarding Item 1A; Budgeting and Item 4C; Bank Reconciliations.

1A. Budgeting Written Policies and Procedures - "Budgeting, including preparing, adopting, monitoring and amending the budget". The Board's written policy does not specifically address documentation regarding monitoring and amending the budget".

Management Response: Monitoring of the budget, revenue, investments and expenditures is performed daily by the Executive Director, Administrative Director, Accountant 3, Accounting Supervisor and the HR unit responsible for payroll coding. This responsibility is clearly listed in all job descriptions and staff are rated annually on these duties. However, required wording was not in the internal procedures. Based on the recommendations from this audit, these words are now specifically written in the Administrative, Accounting and HR internal procedures.

4C. Bank Reconciliations - "Of the 3 bank accounts selected, 3 accounts with a total of 14 bank reconciliations had reconciling items that have been outstanding for more than 6 months. There was no documentation evidencing that these reconciling items were researched for proper disposition".

Management Response: Bank Accounts are reconciled monthly and stale dated checks are immediately issued with a stop pay. The accounting section is up to date on this duty, however, a new accountant did not document her research and actions on the Bank Statement and was not attached to the Bank Reconciliation. The Accountant Supervisor and Accountant 1 were counseled on the importance of providing a clear audit trail and this type of documentation error will not happen again.