
LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018



Postlethwaite & Netterville

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund), as of and for the years ended December 31, 2018 and 2017, the related notes to the financial statements, which collectively comprise the Fund'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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Postlethwaite & Netterville

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Accident and Health Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer – Act 706 included on page 14, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report on pages 15 and 16, dated June 28, 2019, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Effective January 1, 2013, the Fund converted its health insurance program from a self-funded program to a fully insured sponsored plan through Blue Cross Blue Shield of Louisiana. The financial statements for the years ended December 31, 2018 and 2017 include only operations for dental coverage which the Fund insures.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2018 by \$1,966,818 compared to the Fund's assets exceeding its liabilities by \$1,985,086 as of December 31, 2017.
- The Fund's assets totaled \$1,990,918 and \$2,020,597 at December 31, 2018 and 2017, respectively, which consisted primarily of cash and cash equivalents.
- The Fund reported gross premiums earned of \$226,644 and \$291,977 during the years ended December 31, 2018 and 2017, respectively.
- The Fund reported a decrease in net position of \$18,268 during the year ended December 31, 2018 compared to an increase in net position of \$58,950 during the year ended December 31, 2017.
- The Fund outsourced the processing of dental claims during the year ended December 31, 2018 and paid approximately \$29,000 in administrative fees to the third party processor.

Overview of the Financial Statements

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

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

Financial Analysis of the Fund

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

Condensed Statements of Net Position

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total assets	\$ 1,990,918	\$ 2,020,597
Deferred outflows	-	-
Total liabilities	24,100	35,511
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,966,818</u>	<u>\$ 1,985,086</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 226,644	\$ 291,977
Operating expenses	<u>249,861</u>	<u>234,027</u>
Operating income	(23,217)	57,950
Non-operating income	<u>4,949</u>	<u>1,000</u>
Change in net position	<u>\$ (18,268)</u>	<u>\$ 58,950</u>

The Fund experienced an excess of expenses over revenue in the amount of \$23,217 for the current year resulting primarily from a decrease in operating revenues due to the loss of business and higher expenses. During the year ended December 31, 2017, the Fund experienced an excess of revenues over expenses of \$57,950 due to a decrease in operating expenses, primarily in claims expense. During the year ended December 31, 2018, the Fund reported premium income of \$226,644 and investment income of \$4,949. During the year ended December 31, 2018, the Fund reported total expenses of \$249,861, which consisted primarily of claims expense. Claims expense incurred during the years ended December 31, 2018 and 2017 represented 79% and 62% of premium income, respectively.

Requests for Information

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents (note 4)	\$ 1,990,402	\$ 2,001,095
Prepays	-	2,785
Accounts receivable, net	<u>516</u>	<u>16,717</u>
Total assets	1,990,918	2,020,597
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 1,990,918</u>	<u>\$ 2,020,597</u>
Liabilities:		
Unpaid claims liability (note 3)	\$ 24,100	\$ 32,100
Due to affiliates (note 2)	<u>-</u>	<u>3,411</u>
Total liabilities	24,100	35,511
Deferred inflows	-	-
Net position	<u>1,966,818</u>	<u>1,985,086</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,990,918</u>	<u>\$ 2,020,597</u>

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 226,644	\$ 291,977
Total operating revenues	226,644	291,977
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	179,117	179,672
Service agent fees (note 2)	26,787	41,436
Administrative fees (note 2)	32,346	3,600
Professional fees	11,611	9,319
Total operating expenses	249,861	234,027
<u>OPERATING (LOSS) INCOME</u>	(23,217)	57,950
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	4,949	1,000
<u>CHANGE IN NET POSITION</u>	(18,268)	58,950
 NET POSITION - BEGINNING OF YEAR	 1,985,086	 1,926,136
NET POSITION - END OF YEAR	\$ 1,966,818	\$ 1,985,086

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Operating (loss) income	\$ (23,217)	\$ 57,950
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operations:		
Change in accounts receivables	16,201	(14,449)
Change in prepaid expenses	2,785	(2,785)
Change in unpaid claims liability	(8,000)	2,300
Net cash (used in) provided by operating activities	(12,231)	43,016
Cash flows from investing activities:		
Investment interest received	4,949	1,000
Net cash provided by investing activities	4,949	1,000
Cash flows from financing activities:		
Change in due to affiliates	(3,411)	(48)
Net cash used in financing activities	(3,411)	(48)
Net change in cash	(10,693)	43,968
Cash, beginning of year	2,001,095	1,957,127
Cash, end of year	\$ 1,990,402	\$ 2,001,095

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

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

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

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

The Fund pays LMA administrative fees of \$300 per month. The Fund also pays service agent fees to RMI for dental coverage (see note 2). During the year ended December 31, 2018, the Fund outsourced the processing of dental claims to an unrelated third party. This service cost \$3.25 per contract, for a total of approximately \$29,000 for the year ended December 31, 2018.

As of December 31, 2018 and 2017, there were 34 and 36 participating municipalities in the Fund with a total number of participants of 942 and 991, respectively.

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *Basis of Accounting*

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

(c) *Net Position*

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

(d) *Premium Income and Accounts Receivable*

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

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

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Unpaid Claims Liability

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

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

(g) Cash and Cash Equivalents

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

(h) Income Taxes

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

(i) Use of Estimates

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

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

	2018	2017
Expenses and current fee structure:		
Service agent fees – RMI (for dental participant - \$3.00 2018 and 2017)	\$ 26,787	\$ 41,436
Administrative fees – LMA	\$ 3,600	\$ 3,600
Due to RMI	\$ -	\$ 3,411

Beginning in 2018 the dental claim processing by RMI was discontinued and contracted to a third party.

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

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

	2018	2017
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 32	\$ 30
Incurred claims and claims adjustment expense-provision for insured events	179	180
Less payments – claims and claims adjustment expenses	(187)	(178)
Unpaid claims and claims adjustment expenses liability, end of year	\$ 24	\$ 32

4. CASH AND CASH EQUIVALENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2018 and 2017. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS (continued)

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

Net investment income for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Interest income	<u>\$ 4,949</u>	<u>\$ 1,000</u>

5. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 28, 2019 and determined that no subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2018

Agency Head Name: John Gallagher

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

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of December 31, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

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

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

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



Postlethwaite & Netterville

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana

June 28, 2019

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018



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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Fund'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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Public Liability Fund as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Public Liability Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

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

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2018 by \$11,303,443 compared to \$9,012,468 as of December 31, 2017, which is a 25% increase.
- At December 31, 2018, the Fund's assets totaled \$27,721,916, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2017, the Fund's assets totaled \$26,509,362 and consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable.
- The Fund reported earned premiums of \$11,149,211 and \$11,588,824 during the years ended December 31, 2018 and 2017, respectively.
- Net position increased by \$2,290,975 and by \$3,049,889 during the years ended December 31, 2018 and 2017, respectively.
- At the end of the current fiscal year, the Fund's net position totaled \$11,303,443, or 69% of the Fund's liabilities.

Overview of the Financial Statements

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

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund

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

Condensed Statements of Net Position at December 31:

	<u>2018</u>	<u>2017</u>
Total assets	\$ 27,721,916	\$ 26,509,362
Deferred outflows	-	-
Total liabilities	16,418,473	17,496,894
Deferred inflows	-	-
Net position	<u>\$ 11,303,443</u>	<u>\$ 9,012,468</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 5% primarily related to an increase in due from affiliates and reinsurance receivable. Total liabilities decreased approximately 6.2% over prior year as a result of the decrease in the unpaid claims liability.

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 11,149,211	\$ 11,588,824
Operating expenses	<u>9,093,369</u>	<u>8,868,220</u>
Operating income	2,055,842	2,720,604
Non-operating income	<u>235,133</u>	<u>329,285</u>
Change in net position	<u>\$ 2,290,975</u>	<u>\$ 3,049,889</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

During the year ended December 31, 2018, the Fund reported premium revenues of \$11,149,211 and investment income of \$235,133. Investment income earned during 2018 decreased slightly compared to 2017 due to unfavorable changes in the values of the Fund's investment portfolio. The Fund reported total expenses of \$9,093,369 which consisted primarily of claims, reinsurance premiums, and administrative and service agent fees. During 2017, the Fund reported premium income of \$11,588,824 and total expenses of \$8,868,220, which were similar in make-up to 2018. Expenses increased from 2017 primarily as a result of higher claims expenses resulting from increases in claims incurred during the current policy year. The Fund's net position increased \$2,290,975 during 2018 and \$3,049,889 during 2017. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Requests for Information

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 4,584,386	\$ 4,847,788
Investments (note 4)	19,176,997	18,959,560
Accounts receivable, net	285,702	545,408
Reinsurance receivable (note 3)	1,381,159	242,399
Deductibles receivable	88,444	117,796
Due from affiliates - net (note 2)	2,110,518	1,704,893
Accrued interest receivable	94,710	91,518
	<hr/>	<hr/>
Total assets	<u>\$ 27,721,916</u>	<u>\$ 26,509,362</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 14,076,000	\$ 14,931,000
Unearned premiums	2,333,128	2,560,662
Due to affiliates - net (note 2)	4,052	-
Accrued expenses	5,293	5,232
	<hr/>	<hr/>
Total liabilities	16,418,473	17,496,894
Deferred inflows	-	-
Net position	<u>11,303,443</u>	<u>9,012,468</u>
	<hr/>	<hr/>
Total liabilities, deferred inflows, and net position	<u>\$ 27,721,916</u>	<u>\$ 26,509,362</u>

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 11,149,211	\$ 11,588,824
Total operating revenues	11,149,211	11,588,824
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	5,693,197	5,349,224
Reinsurance premiums (note 2)	1,845,566	1,918,336
Administrative fees (note 2)	696,826	666,357
Service agent fees (note 2)	808,318	782,246
Bad debt expense	-	37,252
Miscellaneous	49,462	114,805
Total operating expenses	9,093,369	8,868,220
<u>OPERATING INCOME</u>	2,055,842	2,720,604
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	235,133	329,285
<u>CHANGE IN NET POSITION</u>	2,290,975	3,049,889
<u>NET POSITION - BEGINNING OF YEAR</u>	9,012,468	5,962,579
<u>NET POSITION - END OF YEAR</u>	\$ 11,303,443	\$ 9,012,468

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Operating income	\$ 2,055,842	\$ 2,720,604
Adjustments to reconcile operating income to net cash used in operations:		
Bad debt expense	-	37,252
Change in receivables	(852,894)	573,703
Change in unpaid claims liability	(855,000)	(1,442,000)
Change in accrued expenses, unearned premiums and due to affiliates	<u>(629,046)</u>	<u>(160,751)</u>
Net cash (used in) provided by operating activities	<u>(281,098)</u>	<u>1,728,808</u>
Cash flows from investing activities:		
Purchases of investments	(6,856,554)	(7,360,778)
Proceeds from sales and maturities of investments	6,355,578	6,846,772
Investment income received	<u>518,672</u>	<u>525,069</u>
Net cash provided by investing activities	<u>17,696</u>	<u>11,063</u>
Net change in cash	(263,402)	1,739,871
Cash, beginning of year	<u>4,847,788</u>	<u>3,107,917</u>
Cash, end of year	<u>\$ 4,584,386</u>	<u>\$ 4,847,788</u>

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2018 and 2017, there were 203 and 210 participating municipalities, respectively.

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

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

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

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

(b) Basis of Accounting

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

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

(d) *Investments*

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

(e) *Premium Income and Receivables*

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

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

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Unpaid Claims Liability*

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

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

(h) *Statements of Cash Flows*

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

(i) *Excess Reinsurance*

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

(j) *Income Taxes*

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Use of Estimates

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

(l) Reclassification

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

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of premiums earned and earned normal premiums (ENP) for the years ended December 31, 2018 and 2017, respectively. The respective percentages of the earned normal premiums and earned standard premiums are as follows:

	<u>2018</u>	<u>2017</u>
Expenses (and current fee structure):		
Administrative fee – LMA (6.25% & 5.75%, respectively) of earned premium	\$ 696,826	\$ 666,357
Service agent - RMI (7.25% & 6.75%, respectively) of earned premium	\$ 808,318	\$ 782,246
Reinsurance premium – LMRFA 16.55% of earned premium	\$ 1,845,566	\$ 1,918,336
Reinsurance recoveries from LMRFA	\$ 2,225,014	\$ 1,635,131
Due (to) from affiliates:		
LMA	\$ 23,174	\$ (3,247)
RMI	58,811	(221,959)
LMRFA	<u>2,028,533</u>	<u>1,930,099</u>
	<u>\$ 2,110,518</u>	<u>\$ 1,704,893</u>

Additionally, as of December 31, 2018 there is \$4,052 due to an affiliate and as of December 31, 2017 there is \$33,422 due from an affiliate.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 28,048	\$ 30,357
Less: reinsurance recoverables	<u>13,117</u>	<u>13,984</u>
Liability for unpaid losses at beginning of year, net	<u>14,931</u>	<u>16,373</u>
Net incurred related to:		
Current year	5,288	5,100
Prior years	<u>405</u>	<u>249</u>
Total incurred	<u>5,693</u>	<u>5,349</u>
Net paid related to:		
Current year	687	643
Prior years	<u>5,861</u>	<u>6,148</u>
Total paid	<u>6,548</u>	<u>6,791</u>
Liability for unpaid losses at end of year, gross	23,900	28,048
Less: reinsurance recoverables	<u>9,824</u>	<u>13,117</u>
Liability for unpaid losses at end of year, net	<u>\$ 14,076</u>	<u>\$ 14,931</u>

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$1,381,159 and \$242,399 of paid claims which are recoverable from the reinsurer at December 31, 2018 and 2017, respectively.

During 2018 and 2017, the Fund experienced slight unfavorable development of prior year estimated loss reserves. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2018 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2018, will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for each of December 31, 2018 and 2017, based on the Fund's anticipated payout patterns and discount rate assumptions of 3.0%, which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$962,000 and \$983,000 at December 31, 2018 and 2017, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2018 and 2017.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2018 and 2017:

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 5,827,937	\$ 5,944,873	\$ 5,442,728	\$ 5,479,785
U.S. Agency debt obligations	11,516,650	11,736,687	12,575,025	12,670,213
U.S. Treasury bonds	1,566,391	1,572,980	565,924	571,530
Money market funds	<u>266,019</u>	<u>266,019</u>	<u>375,883</u>	<u>375,883</u>
TOTAL	<u>\$ 19,176,997</u>	<u>\$ 19,520,559</u>	<u>\$ 18,959,560</u>	<u>\$ 19,097,411</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market accounts are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2018 and 2017.

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2018:

<u>INVESTMENT TYPE</u>	INVESTMENT MATURITIES (in years)				
	Estimated Fair Value	Less than 1	1-5	6-10	Greater than 10
Money market funds	\$ 266,019	\$ 266,019	\$ -	\$ -	\$ -
U.S. Treasury bonds and notes	1,566,391	-	1,566,391	-	-
U.S. Government mortgage-backed securities	5,827,937	4,882	41,123	1,137,810	4,644,122
U.S. Agency debt obligations	<u>11,516,650</u>	<u>1,747,592</u>	<u>5,853,541</u>	<u>3,338,451</u>	<u>577,066</u>
	<u>\$ 19,176,997</u>	<u>\$ 2,018,493</u>	<u>\$ 7,461,055</u>	<u>\$ 4,476,261</u>	<u>\$ 5,221,188</u>

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

Net investment income for the years ended December 31, 2018 and 2017 consists of the following:

	2018	2017
Interest income	\$ 467,111	\$ 437,835
Realized gains (losses) – net	(26,269)	(32,105)
Unrealized gains (losses) arising during the year - net	<u>(205,709)</u>	<u>(76,445)</u>
	<u>\$ 235,133</u>	<u>\$ 329,285</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

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

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

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

The fair value of investment securities was determined as follows at December 31, 2018 and 2017:

December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 1,566,391	\$ -	\$ 1,566,391
U.S. Government mortgage- backed securities	-	5,827,937	5,827,937
U.S. Agency debt obligations	11,516,650	-	11,516,650
Money market funds	266,019	-	266,019
	<u>\$ 13,349,060</u>	<u>\$ 5,827,937</u>	<u>\$ 19,176,997</u>

December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 565,924	\$ -	\$ 565,924
U.S. Government mortgage- backed securities	-	5,442,728	5,442,728
U.S. Agency debt obligations	12,575,025	-	12,575,025
Money market funds	375,883	-	375,883
	<u>\$ 13,516,832</u>	<u>\$ 5,442,728</u>	<u>\$ 18,959,560</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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

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

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

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

	<u>2018</u>	<u>2017</u>
Assets	\$ 54,895,562	\$ 54,598,297
Liabilities	<u>35,230,786</u>	<u>37,665,088</u>
Net Position	<u>\$ 19,664,776</u>	<u>\$ 16,933,209</u>

At December 31, 2018, the Fund included approximately \$9.8 million as recoverable from LMRFA (included in the liabilities above) which reduced liabilities for anticipated losses. The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 28, 2019 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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

DECEMBER 31, 2018
(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers on specific losses) incurred by the Fund as of the end of 2018 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	(in thousands)									
ENP and investment income	\$ 11,384	\$ 11,918	\$ 11,963	\$ 12,343	\$ 10,727	\$ 11,721	\$ 11,988	\$ 11,811	\$ 11,711	\$ 12,125
Operating costs unallocated	3,400	3,519	3,468	3,563	6,432	5,499	3,611	3,395	3,133	3,266
Estimated incurred claims and claims expense, end of policy year	5,617	5,266	7,127	6,744	7,613	7,374	8,778	6,826	6,287	6,097
Paid (cumulative) as of:										
End of policy year	687	643	719	686	765	838	1,084	931	920	787
One year later	-	1,688	2,293	2,416	2,346	2,669	2,705	2,644	2,379	2,229
Two years later	-	-	4,027	4,383	4,631	4,621	5,189	4,733	3,886	3,865
Three years later	-	-	-	5,899	5,946	6,109	6,326	5,860	4,897	4,737
Four years later	-	-	-	-	6,678	6,398	6,802	6,222	5,220	5,372
Five years later	-	-	-	-	-	6,622	7,124	6,503	5,503	5,454
Six years later	-	-	-	-	-	-	7,267	6,611	5,616	5,573
Seven years later	-	-	-	-	-	-	-	6,688	5,637	5,558
Eight years later	-	-	-	-	-	-	-	-	5,656	5,605
Nine years later	-	-	-	-	-	-	-	-	-	5,608
Estimated incurred claims and claims expense:										
End of policy year	5,617	5,266	7,127	6,744	7,613	7,374	8,778	6,826	6,287	6,097
One year later	-	5,231	6,914	7,209	7,267	7,619	8,476	7,083	6,460	6,103
Two years later	-	-	6,840	7,444	7,873	7,398	8,324	7,466	6,287	6,395
Three years later	-	-	-	7,780	7,485	7,680	7,982	7,297	6,180	6,103
Four years later	-	-	-	-	7,537	7,269	7,814	6,970	5,966	6,064
Five years later	-	-	-	-	-	7,158	7,671	7,017	5,935	5,918
Six years later	-	-	-	-	-	-	7,601	6,898	5,943	5,846
Seven years later	-	-	-	-	-	-	-	6,857	5,803	5,770
Eight years later	-	-	-	-	-	-	-	-	5,769	5,722
Nine years later	-	-	-	-	-	-	-	-	-	5,710
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(35)	(287)	1,036	(76)	(216)	(1,177)	31	(518)	(387)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2018

Agency Head Name: John Gallagher

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

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statement of financial position as of December 31, 2018, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018



Postlethwaite & Netterville

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Funds' 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

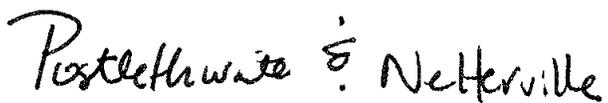
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Workers' Compensation Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.


Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

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

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2018 by \$24,703,224 compared to \$24,134,216 as of December 31, 2017, which is a 2.4% increase over the previous year.
- At December 31, 2018, the Fund's assets totaled \$41,952,969 which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2017 the Fund's assets totaled \$42,306,472 and consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables.
- The Fund reported earned premiums of \$8,688,432 and \$9,996,079 during the years ended December 31, 2018 and 2017, respectively, and an increase in net position of \$569,008 and \$2,957,789 during the years ended December 31, 2018 and 2017, respectively.
- At the end of the current fiscal year, the Fund's net position totaled \$24,703,224 or 143% of the Fund's liabilities. The Fund's premiums earned during 2018 were approximately 35% of its net position at December 31, 2018.

Overview of the Financial Statements

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

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

Financial Analysis of the Fund

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

Condensed Statements of Net Position at December 31:

	<u>2018</u>	<u>2017</u>
Total assets	\$ 41,952,969	\$ 42,306,472
Deferred outflows	-	-
Total liabilities	17,249,745	18,172,256
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 24,703,224</u>	<u>\$ 24,134,216</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 0.84% due to normal fluctuations. Total liabilities decreased approximately 5.1% mainly due to the decreases in due to affiliates and decreases in unpaid claims liabilities due to favorable development experienced. Net position increased approximately 2.36% from the prior year.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 8,688,432	\$ 9,996,079
Operating expenses	<u>8,574,734</u>	<u>7,588,797</u>
Operating income	113,698	2,407,282
Non-operating income	<u>455,310</u>	<u>550,507</u>
Change in net position	<u>\$ 569,008</u>	<u>\$ 2,957,789</u>

Premium revenues decreased \$1,307,647 or 13% primarily due to losses in membership and changes in premium rates and covered payroll. During the year ended December 31, 2018, the Fund reported premiums earned income of \$8,688,432 and non-operating investment income of \$455,310. During 2018, the Fund reported total expenses of \$8,574,734, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses increased approximately \$985,937 or 13% compared to the prior year primarily as a result of increased claims payments from the prior year related to less favorable development of prior year reserve estimates.

The Fund's net position increased during 2018 by \$569,008 compared to \$2,957,789 in the prior year. This is primarily a result of operating revenue decreasing as well as claims expenses increasing as discussed above. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Financial Outlook

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

Requests for Information

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 1,752,825	\$ 3,421,730
Investments (note 4)	37,450,701	37,012,071
Accounts receivable, net	1,059,596	1,174,418
Reinsurance receivable (note 3)	1,500,385	512,540
Accrued interest receivable	<u>189,462</u>	<u>185,713</u>
Total assets	<u>\$ 41,952,969</u>	<u>\$ 42,306,472</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability (note 3)	\$ 12,148,000	\$ 12,888,000
Unearned premiums	835,650	699,982
Due to affiliates (note 2)	1,082,108	1,581,875
Accounts payable and accrued expenses	<u>3,183,987</u>	<u>3,002,399</u>
Total liabilities	17,249,745	18,172,256
Deferred inflows	-	-
Net position	<u>24,703,224</u>	<u>24,134,216</u>
Total liabilities, deferred inflows, and net position	<u>\$ 41,952,969</u>	<u>\$ 42,306,472</u>

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 8,688,432	\$ 9,996,079
Total operating revenues	8,688,432	9,996,079
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	3,738,569	2,849,016
Administrative fees (note 2)	949,076	998,744
Service agent fees (note 2)	825,283	862,552
Reinsurance premiums (note 2)	2,248,897	2,474,161
Second Injury Fund assessment	496,761	523,496
Office of Workers' Compensation assessment	243,221	(198,633)
Other	72,927	79,461
Total operating expenses	8,574,734	7,588,797
<u>OPERATING INCOME</u>	113,698	2,407,282
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	455,310	550,507
<u>CHANGE IN NET POSITION</u>	569,008	2,957,789
<u>NET POSITION - BEGINNING OF YEAR</u>	24,134,216	21,176,427
<u>NET POSITION - END OF YEAR</u>	\$ 24,703,224	\$ 24,134,216

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Operating income	\$ 113,698	\$ 2,407,282
Adjustments to reconcile operating income to net cash (used in) provided by operations:		
Change in receivables and reinsurance receivable	(873,023)	338,234
Change in unpaid claims liability	(740,000)	(1,035,000)
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	(186,260)	(390,853)
Net cash (used in) provided by operating activities	(1,685,585)	1,319,663
Cash flows from investing activities:		
Investment income received	1,036,779	1,032,705
Purchases of investments	(13,263,429)	(11,950,829)
Proceeds from sales and maturities of investments	12,243,330	10,928,439
Net cash provided by investing activities	16,680	10,315
Net change in cash	(1,668,905)	1,329,978
Cash, beginning of year	3,421,730	2,091,752
Cash, end of year	\$ 1,752,825	\$ 3,421,730

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2018 and 2017, there were 168 and 178 participating municipalities, respectively.

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

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

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

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

(b) Basis of Accounting

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

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

(d) *Investments*

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

(e) *Premium Income and Accounts Receivable*

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

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. At each of December 31, 2018 and 2017, the allowance for doubtful accounts totaled \$100,000.

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

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

(g) *Unpaid Claims Liability*

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unpaid Claims Liability (continued)

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

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

(h) Statements of Cash Flows

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

(i) Excess Reinsurance and Other Reimbursements

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

(j) Income Taxes

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

(k) Insurance Related Assessments

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Use of Estimates

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

(m) Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform with the current year presentation.

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2018 and 2017. The respective percentages of the earned normal premiums are as follows:

	2018	2017
Expenses (and current fee structure):		
Administrative fees – LMA (11.50% & 11.00% of ENP, respectively)	<u>\$ 949,076</u>	<u>\$ 998,744</u>
Service agent fees - RMI (10.00% & 9.50% of ENP, respectively)	<u>\$ 825,283</u>	<u>\$ 862,552</u>
Reinsurance premium - LMRFA (27.25% of ENP)	<u>\$ 2,248,897</u>	<u>\$ 2,474,161</u>
Reinsurance recoveries from LMRFA	<u>\$ 3,181,707</u>	<u>\$ 2,667,690</u>
Due to (from) affiliates:		
LMA	(\$ 70,924)	\$ 214,850
RMI	(123,013)	(120,123)
LMRFA	<u>1,276,045</u>	<u>1,487,148</u>
	<u>\$ 1,082,108</u>	<u>\$ 1,581,875</u>

Additionally, as of December 31, 2018, there is \$4,052 due from affiliates and as of December 31, 2017, there is \$33,422 due to affiliates. For each of these years, these amounts are included in accounts receivable.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 36,979	\$ 40,647
Less: reinsurance recoverables	<u>24,091</u>	<u>26,724</u>
Liability for unpaid losses at beginning of year, net	<u>12,888</u>	<u>13,923</u>
Net incurred related to:		
Current year	4,034	4,446
Prior years	<u>(295)</u>	<u>(1,597)</u>
Total incurred	<u>3,739</u>	<u>2,849</u>
Net paid related to:		
Current year	971	993
Prior years	<u>3,508</u>	<u>2,891</u>
Total paid	<u>4,479</u>	<u>3,884</u>
Liability for unpaid losses at end of year, gross	36,788	36,979
Less: reinsurance recoverables (note 5)	<u>24,640</u>	<u>24,091</u>
Liability for unpaid losses at end of year, net	<u>\$ 12,148</u>	<u>\$ 12,888</u>

In addition to the unpaid claims covered by the reinsurers, there are \$1,500,385 and \$512,540 of paid claims which are recoverable from the reinsurer at December 31, 2018 and 2017, respectively. During 2018 and 2017, the Fund experienced overall favorable development on unpaid claims liabilities established in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2018 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2018 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for the years ended December 31, 2018 and 2017, based on the Fund's anticipated payout patterns and a discount rate assumption of 3.0%, which is intended to approximate the investment earnings over the reserve payout period. The effect of the reserve discounts was \$1,352,000 and \$1,410,000 at December 31, 2018 and 2017, respectively.

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2018 and 2017.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2018 and 2017:

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 2,541,151	\$ 2,551,896	\$ 1,775,404	\$ 1,775,235
U.S. Treasury bills	1,493,726	1,498,470	-	-
U.S. Government mortgage backed securities	12,345,460	12,502,726	9,846,387	9,863,228
U.S. Agency debt obligations	20,732,701	21,030,199	24,720,358	24,743,384
Money market funds	<u>337,663</u>	<u>337,663</u>	<u>669,922</u>	<u>669,922</u>
TOTAL	<u>\$ 37,450,701</u>	<u>\$ 37,920,954</u>	<u>\$ 37,012,071</u>	<u>\$ 37,051,769</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

Credit Risk

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2018:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Treasury bonds and notes	\$ 2,541,151	\$ 361,491	\$ 1,526,571	\$ 653,089	\$ -
U.S. Government mortgage backed	12,345,460	1,825	109,963	2,491,175	9,742,497
U.S. Agency debt obligations	20,732,701	3,600,570	9,872,439	6,297,914	961,778
U.S. Treasury Bill/Money market funds	<u>1,831,389</u>	<u>1,831,389</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$37,450,701</u>	<u>\$ 5,795,275</u>	<u>\$ 11,508,973</u>	<u>\$ 9,442,178</u>	<u>\$10,704,275</u>

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

Investment income for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 940,046	\$ 874,769
Realized losses, net	(52,651)	(57,606)
Unrealized losses arising during the year	<u>(432,085)</u>	<u>(266,656)</u>
	<u>\$ 455,310</u>	<u>\$ 550,507</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

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

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

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

The fair value of investment securities was determined as follows at December 31, 2018 and 2017:

December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 2,541,151	\$ -	\$ 2,541,151
U.S. Government mortgage- backed securities	-	12,345,460	12,345,460
U.S. Agency debt obligations	20,732,701	-	20,732,701
Money market funds	1,831,389	-	1,831,389
	<u>\$ 25,105,241</u>	<u>\$ 12,345,460</u>	<u>\$ 37,450,701</u>

December 31, 2017:

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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

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

The following are condensed Statements of Net Position for LMRFA at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Assets	\$ 54,895,562	\$ 54,598,297
Liabilities	<u>35,230,786</u>	<u>37,665,088</u>
Net position	<u>\$ 19,664,776</u>	<u>\$ 16,933,209</u>

At December 31, 2018, the Fund included approximately \$24.6 million as recoverable from LMRFA (included in the liabilities above) which reduces the Fund's liabilities for anticipated losses (note 3). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable. Effective March 5, 2018, LMRFA purchased commercial reinsurance covering exposures incurred related to the Workers' Compensation Fund covering losses in excess of \$400,000 and is limited to 50% of \$1 million per occurrence for the period from March 5, 2018 to December 31, 2018. As of December 31, 2018 no paid losses have incurred that exceeded these policy limits.

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 28, 2019, and determined that there were no events that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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

DECEMBER 31, 2018
(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2018 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	(in thousands)									
ENP and investment income	\$ 9,144	\$ 10,547	\$ 10,847	\$ 8,270	\$10,119	\$ 8,956	\$ 11,046	\$ 11,787	\$ 12,360	\$ 11,166
Operating costs, unallocated	4,836	4,740	5,319	4,087	12,669	7,317	5,887	5,721	4,951	3,431
Estimated incurred claims and expense, end of policy year	4,379	4,670	4,653	5,107	6,286	6,343	6,103	4,786	6,286	4,429
Paid (cumulative) as of:										
End of policy year	971	993	903	811	1,198	1,195	1,301	1,096	1,540	876
One year later		2,415	2,111	1,944	3,071	2,514	3,353	2,187	3,447	1,761
Two years later		-	2,770	2,534	3,825	3,464	4,389	2,671	4,165	2,258
Three years later		-	-	3,042	4,637	4,069	5,458	2,962	4,809	2,467
Four years later		-	-	-	4,855	4,406	6,093	3,224	5,185	2,554
Five years later		-	-	-	-	4,656	6,255	3,293	5,453	2,579
Six years later		-	-	-	-	-	6,301	3,338	5,466	2,597
Seven years later		-	-	-	-	-	-	3,328	5,445	2,608
Eight years later		-	-	-	-	-	-	-	5,448	2,639
Nine years later		-	-	-	-	-	-	-	-	2,657
Estimated incurred claims and claims expense:										
End of policy year	4,379	4,670	4,653	5,107	6,286	6,343	6,103	4,786	6,286	4,429
One year later	-	4,705	4,084	4,595	5,979	5,823	7,359	4,450	6,148	3,329
Two years later	-	-	4,494	4,298	6,179	5,847	7,752	4,106	6,286	3,722
Three years later	-	-	-	4,244	6,284	5,896	8,018	4,004	6,346	3,329
Four years later	-	-	-	-	5,882	5,729	8,037	3,949	6,358	3,147
Five years later	-	-	-	-	-	5,464	7,497	3,791	6,378	3,067
Six years later	-	-	-	-	-	-	7,087	3,694	6,171	3,018
Seven years later	-	-	-	-	-	-	-	3,638	6,057	2,930
Eight years later	-	-	-	-	-	-	-	-	6,019	2,857
Nine years later	-	-	-	-	-	-	-	-	-	2,828
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	35	(159)	(863)	(404)	(879)	984	(1,148)	(267)	(1,601)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

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

Agency Head Name: John Gallagher

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of December 31, 2018, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville
Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2018



Postlethwaite & Netterville

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LOUISIANA MUNICIPAL RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2018

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net position of the business type activities of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements which collectively comprise the Fund'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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Reserve Fund Agency basic financial statements. The schedule of compensation, benefits, and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits, and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits, and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 28, 2019, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2018 by \$19,664,776 compared to \$16,993,209 as of December 31, 2017, which is a 16% increase from the previous year. This increase was driven by lower claims experience resulting from favorable development of loss reserves on prior policy years.
- At December 31, 2018, the Fund's assets totaled \$54,895,562, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables. At December 31, 2017, the Fund's assets totaled \$54,598,297 which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables.
- The Fund reported gross earned premiums of \$4,094,463 and \$4,392,497 during the years ended December 31, 2018 and 2017, respectively. The decrease in the earned premium is a result of slightly decreased premium income from both the Workers' Compensation Fund and the Public Liability Fund as a result of slightly decreased membership compared to 2017.
- The Fund reported investment income of \$602,551 and of \$823,206 during the years ended December 31, 2018 and 2017, respectively. The decrease in investment income is attributed to valuation changes in the investment portfolio.
- The Fund had an increase in net position of \$2,731,567 and \$4,870,499 during the years ended December 31, 2018 and 2017, respectively. During 2018, the increase in net position is primarily a result of significant favorable claims development at the excess level of the Public Liability reserve estimates.

Overview of the Financial Statements

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

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

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

Financial Analysis of the Fund

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

Condensed Statements of Net Position at December 31:

	<u>2018</u>	<u>2017</u>
Total assets	\$ 54,895,562	\$ 54,598,297
Deferred outflows	-	-
Total liabilities	35,230,786	37,665,088
Deferred inflows	-	-
Net position	<u>\$ 19,664,776</u>	<u>\$ 16,933,209</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 0.5% while liabilities decreased by 7.4% due to lower estimates of unpaid claims liability. Net position increased approximately 16% from the prior year.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

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

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 4,094,463	\$ 4,392,497
Operating expenses	<u>1,965,447</u>	<u>345,204</u>
Operating income	2,129,016	4,047,293
Non-operating income	<u>602,551</u>	<u>823,206</u>
Change in net position	<u>\$ 2,731,567</u>	<u>\$ 4,870,499</u>

During the year ended December 31, 2018, the Fund reported premium earned of \$4,094,463 and investment income of \$602,551. Premiums earned decreased slightly due to decreases in the Worker's Compensation and Public Liability Fund's underlying membership. The Fund reported total expenses of \$1,965,447 and \$345,204 which consisted primarily of claims expense and reinsurance expense in 2018 and claims expense in 2017. Effective March 5, 2018, the Fund purchased an excess insurance policy to cede a portion of the workers' compensation losses. The Fund experienced non-operating income of \$602,551 and an increase in net position of \$2,731,567 for the current year. See the Statements of Revenues, Expenses, and Changes in Net Position on page 7 of this report.

Requests for Information

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,368,444	\$ 2,667,469
Investments (note 4)	52,268,750	51,683,396
Accrued interest receivable	<u>258,368</u>	<u>247,432</u>
Total assets	<u>\$ 54,895,562</u>	<u>\$ 54,598,297</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability (note 3)	\$ 34,464,000	\$ 37,208,000
Due to affiliates (note 2)	752,488	442,951
Accrued expenses	<u>14,298</u>	<u>14,137</u>
Total liabilities	35,230,786	37,665,088
Deferred inflows	-	-
Net position	<u>19,664,776</u>	<u>16,933,209</u>
Total liabilities, deferred inflows, and net position	<u>\$ 54,895,562</u>	<u>\$ 54,598,297</u>

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>		
Premiums earned (note 2)	\$ 4,094,463	\$ 4,392,497
Total operating revenues	<u>4,094,463</u>	<u>4,392,497</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	536,116	263,591
Professional fees and other	79,331	81,613
Reinsurance premium	<u>1,350,000</u>	<u>-</u>
Total operating expenses	<u>1,965,447</u>	<u>345,204</u>
<u>OPERATING INCOME</u>	2,129,016	4,047,293
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>602,551</u>	<u>823,206</u>
<u>CHANGE IN NET POSITION</u>	2,731,567	4,870,499
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>16,933,209</u>	<u>12,062,710</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 19,664,776</u>	<u>\$ 16,933,209</u>

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Operating income	\$ 2,129,016	\$ 4,047,293
Adjustments to reconcile operating income to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	298,601	(97,101)
Change in unpaid claims liability	(2,744,000)	(4,871,000)
Change in accrued expenses	161	225
Net cash used in operating activities	<u>(316,222)</u>	<u>(920,583)</u>
Cash flows from investing activities:		
Purchases of investments	(14,914,253)	(18,313,883)
Proceeds from sales or maturities of investments	13,583,626	16,936,434
Investment income received	1,347,824	1,380,868
Net cash provided by investing activities	<u>17,197</u>	<u>3,419</u>
Net change in cash	(299,025)	(917,164)
Cash, beginning of year	<u>2,667,469</u>	<u>3,584,633</u>
Cash, end of year	<u>\$ 2,368,444</u>	<u>\$ 2,667,469</u>

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

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

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

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

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

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

(b) Basis of Accounting

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

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

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

(d) *Investments*

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

(e) *Premium Income*

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

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

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unpaid Claims Liability

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

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

(h) Statements of Cash Flows

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

(i) Income Taxes

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

(j) Use of Estimates

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

(k) Reclassifications

Certain accounts have been reclassified to conform to the current year presentation. These reclassifications have had no effect on the change in net position for 2017.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

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

	<u>2018</u>		<u>2017</u>	
	<u>Fee Basis</u>	<u>Amount</u>	<u>Fee Basis</u>	<u>Amount</u>
Premium income:				
LMRMA:				
Public Liability	16.55% ESP	\$ 1,845,566	16.55% ESP	\$ 1,918,336
Workers' Compensation	27.25% ENP	<u>2,248,897</u>	27.25% ENP	<u>2,474,161</u>
		<u>\$ 4,094,463</u>		<u>\$ 4,392,497</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		(\$ 2,028,533)		(\$ 1,930,099)
Workers' Compensation		<u>1,276,045</u>		<u>1,487,148</u>
		<u>(\$ 752,488)</u>		<u>(\$ 442,951)</u>

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 37,208	\$ 42,079
Less: Reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year, net	<u>37,208</u>	<u>42,079</u>
Net incurred related to:		
Current year	3,872	4,874
Prior years	<u>(3,336)</u>	<u>(4,610)</u>
Total incurred	<u>536</u>	<u>264</u>
Net paid related to:		
Current year	81	334
Prior years	<u>3,199</u>	<u>4,801</u>
Total paid	<u>3,280</u>	<u>5,135</u>
Liability for unpaid losses at end of year, gross	34,773	37,208
Less: Reinsurance recoverables	<u>309</u>	<u>-</u>
Liability for unpaid losses at end of year, net	<u>\$ 34,464</u>	<u>\$ 37,208</u>

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

	<u>2018</u>	<u>2017</u>
	(Amounts in thousands)	
Workers' Compensation	\$ 24,640	\$ 24,091
Public Liability	<u>9,824</u>	<u>13,117</u>
	<u>\$ 34,464</u>	<u>\$ 37,208</u>

During 2018 and 2017, the Fund experienced favorable development related to the assumed Public Liability unpaid claims liabilities resulting from actual reported losses being lower than expected at the excess layer offset by unfavorable development in the assumed Workers' Compensation estimation. During 2017, this favorable development was more pronounced. The liability for unpaid losses has been reduced in 2018 for estimated amounts recoverable from a commercial reinsurance policy on the Workers' Compensation (see note 5.) In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2018 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2018 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for each of December 31, 2018 and 2017, based on the Fund's anticipated payout patterns and discount rate assumptions of 3.0% which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$9,638,000 and \$10,020,000 at December 31, 2018 and 2017, respectively.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2018 and 2017.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2018 and 2017:

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage backed securities	\$ 15,227,156	\$ 15,563,550	\$ 14,689,354	\$ 14,814,776
U.S. Government agency debt obligations	33,773,774	34,174,884	35,726,038	35,750,936
U.S. Treasury bonds and notes	1,435,422	1,401,713	651,895	620,443
U.S. Treasury bills	1,493,726	1,498,470	-	-
Money market funds	<u>338,672</u>	<u>338,672</u>	<u>616,109</u>	<u>616,109</u>
TOTAL	<u>\$ 52,268,750</u>	<u>\$ 52,977,289</u>	<u>\$ 51,683,396</u>	<u>\$ 51,802,264</u>

Custodial Credit Risk

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

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

Credit Risk

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

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2018:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Government mortgage backed securities	\$ 15,227,156	\$ 7,288	\$ 140,300	\$ 1,689,898	\$ 13,389,670
U.S. Government agency debt obligations	33,773,774	7,334,071	14,112,072	11,365,854	961,778
U.S. Treasury bonds and notes	1,435,423	178,340	952,123	304,960	-
Treasury bills/ Money market funds	<u>1,832,397</u>	<u>1,832,397</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 52,268,750</u>	<u>\$ 9,352,096</u>	<u>\$ 15,204,495</u>	<u>\$ 13,360,712</u>	<u>\$ 14,351,448</u>

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

Net investment income for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 1,257,033	\$ 1,200,766
Net realized losses -- net	(63,281)	(73,811)
Unrealized losses arising during the year	(591,201)	(303,749)
	<u>\$ 602,551</u>	<u>\$ 823,206</u>

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

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

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

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

The fair value of investment securities was determined as follows at December 31, 2018 and 2017:

December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 1,435,423	\$ -	\$ 1,435,423
U.S. Government mortgage- backed securities	-	15,227,156	15,227,156
U.S. Agency debt obligations	33,773,774	-	33,773,774
Treasury bills/money market funds	<u>1,832,397</u>	<u>-</u>	<u>1,832,397</u>
	<u>\$ 37,041,594</u>	<u>\$ 15,227,156</u>	<u>\$ 52,268,750</u>

December 31, 2017:

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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

Ceded:

LMRFA obtained commercial reinsurance to cover a portion of workers' compensation medical losses for the periods January 1, 1995, through December 31, 2005. Effective March 5, 2018, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering losses in excess of \$400,000 and is limited to 50% of \$1 million per occurrence and total aggregate limits of \$4.05 million for the period from March 5, 2018 to December 31, 2018. Reinsurance premium for this policy totaled \$1,350,000 for the period of coverage. As of December 31, 2018, no reported losses paid have exceeded the policy retention limits.

Assumed:

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

Workers' Compensation Fund

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

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

Public Liability Fund

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

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

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 28, 2019 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
YEAR ENDED DECEMBER 31, 2018

DECEMBER 31, 2018

(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense incurred by the Fund as of the end of 2018 and as of the end of each of the last nine years.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(in thousands)									
ENP and investment income	\$ 4,697	\$ 5,216	5,311	\$ 9,962	\$ 9,910	\$ 6,948	\$ 7,590	\$ 6,672	\$ 5,220	\$ 6,999
Operating costs, unallocated	1,429	82	86	66	87	162	127	127	122	127
Estimated incurred claims and expense, end of policy year	4,642	6,012	7,038	6,695	9,072	7,037	9,594	9,529	9,211	7,560
Paid (cumulative) as of:										
End of policy year	81	334	-	-	-	1	1,087	797	787	942
One year later		783	138	291	228	189	1,160	1,733	787	942
Two years later		-	1,418	859	830	262	2,268	3,106	2,661	1,987
Three years later		-	-	1,710	1,440	641	2,677	4,036	5,062	2,040
Four years later		-	-	-	1,753	716	2,795	4,336	6,223	3,314
Five years later		-	-	-	-	808	3,481	4,602	6,728	3,803
Six years later		-	-	-	-	-	3,914	4,762	7,034	3,877
Seven years later		-	-	-	-	-	-	4,935	7,152	4,040
Eight years later		-	-	-	-	-	-	-	7,331	4,344
Nine years later		-	-	-	-	-	-	-	-	4,469
Estimated incurred claims and claims expense:										
End of policy year	4,642	6,012	7,038	6,695	9,072	7,037	9,594	9,529	9,211	7,560
One year later		5,018	6,454	6,136	6,747	6,774	11,680	10,038	7,544	6,279
Two years later		-	5,080	5,269	6,113	4,606	11,462	9,087	9,554	6,372
Three years later		-	-	6,352	4,816	4,077	9,213	8,697	10,517	5,807
Four years later		-	-	-	4,443	2,947	8,395	7,267	10,809	5,940
Five years later		-	-	-	-	2,972	7,019	7,015	10,354	5,867
Six years later		-	-	-	-	-	7,142	6,528	9,899	5,497
Seven years later		-	-	-	-	-	-	6,298	9,459	5,301
Eight years later		-	-	-	-	-	-	-	9,298	5,195
Nine years later		-	-	-	-	-	-	-	-	5,390
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(994)	(1,958)	(343)	(4,629)	(4,065)	(2,452)	(3,231)	87	(2,170)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2018

Agency Head Name: John Gallagher

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund), which comprise the statement of net position as of December 31, 2018, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018



Postlethwaite & Netterville

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LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2018

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Fund'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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Association - Unemployment Compensation Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer included on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 28, 2019, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters which appears on pages 18 and 19. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2018 by \$4,203,405 compared to \$4,096,513 at December 31, 2017, which is approximately a 2.6% increase from the previous year.
- At December 31, 2018 and 2017, the Fund's assets totaled \$4,610,720 and \$4,512,754, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$365,677 and \$361,103 during the years ended December 31, 2018 and 2017, respectively. Change in net position was an increase of \$106,892 in 2018 and \$82,613 in 2017.
- Investment gains were \$48,136 in 2018 compared to \$73,325 during 2017. The decrease in investment gains in 2018 were attributed primarily to fluctuations in market prices of the investment portfolio.

Overview of the Financial Statements

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

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

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

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

Financial Analysis of the Fund

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

Condensed Statements of Net Position

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Total assets	\$ 4,610,720	\$ 4,512,754
Total liabilities	<u>407,315</u>	<u>416,241</u>
Net position	<u>\$ 4,203,405</u>	<u>\$ 4,096,513</u>

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

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 365,677	\$ 361,103
Operating expenses	<u>306,921</u>	<u>351,815</u>
Operating gain	58,756	9,288
Non-operating income	<u>48,136</u>	<u>73,325</u>
Change in net position	<u>\$ 106,892</u>	<u>\$ 82,613</u>

Operating revenues increased by approximately 1.27% from the year ended December 31, 2017 to 2018. Claims expense decreased approximately 16% during the year ended December 31, 2018 as a result of a decrease in unemployment claims incurred. Due to the slight increase in revenues and decrease in expenses, the Fund's net position for 2018 increased by \$106,892.

Management anticipates unemployment trends in the State of Louisiana will continue to remain comparable in 2019. At this time, management does not anticipate an increase in premiums, due to the overall health of the Fund, but will continue to monitor the future obligations. These trends indicate the Fund will likely incur similar benefit obligations and remain comparable to the year ended December 31, 2018.

Requests for Information

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents (note 2)	\$ 82,962	\$ 33,714
Investments (note 2)	4,399,951	4,353,265
Accounts receivable	90,929	89,887
Prepaid expenses	14,201	13,783
Accrued interest receivable	<u>22,677</u>	<u>22,105</u>
 Total Assets	 <u>\$ 4,610,720</u>	 <u>\$ 4,512,754</u>
 Deferred outflows	 -	 -
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	<u>57,315</u>	<u>66,241</u>
 Total Liabilities	 407,315	 416,241
 Deferred inflows	 -	 -
 Net position	 <u>4,203,405</u>	 <u>4,096,513</u>
 Total liabilities, deferred inflows, and net position	 <u>\$ 4,610,720</u>	 <u>\$ 4,512,754</u>

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 365,677	\$ 361,103
Total operating revenues	<u>365,677</u>	<u>361,103</u>
 <u>OPERATING EXPENSES</u>		
Claims expense (note 3)	231,250	276,085
Service agent fees	53,977	55,843
Miscellaneous	21,694	19,887
Total operating expenses	<u>306,921</u>	<u>351,815</u>
 <u>OPERATING INCOME</u>	 58,756	 9,288
 <u>NON-OPERATING INCOME</u>		
Investment income - net	<u>48,136</u>	<u>73,325</u>
 <u>CHANGE IN NET POSITION</u>	 106,892	 82,613
 NET POSITION - BEGINNING OF YEAR	 <u>4,096,513</u>	 <u>4,013,900</u>
 NET POSITION - END OF YEAR	 <u>\$ 4,203,405</u>	 <u>\$ 4,096,513</u>

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Operating income	\$ 58,756	\$ 9,288
Adjustments to reconcile operating income to net cash provided by (used) in operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(1,042)	(458)
Prepays	(418)	410
Accrued expenses, unpaid claims and other liabilities	(8,926)	(48,935)
Net cash provided by (used in) operating activities	48,370	(39,695)
Cash flows from investing activities:		
Purchases of investments	(993,481)	(1,436,766)
Proceeds from sale or maturity of investments	874,582	1,362,013
Investment income received	119,777	120,522
Net cash provided by investing activities	878	45,769
Net change in cash	49,248	6,074
Cash, beginning of year	33,714	27,640
Cash, end of year	\$ 82,962	\$ 33,714

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

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

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

As of December 31, 2018, there were approximately 6,400 participants and 145 participating municipalities. As of December 31, 2017, there were approximately 6,500 participants and 143 participating municipalities.

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

(b) Basis of Accounting

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

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

(c) Net Position

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Cash and Cash Equivalents*

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

(e) *Investments*

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

(f) *Unpaid Claims Liability*

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

(g) *Income Taxes*

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

(h) *Premium Income and Accounts Receivable*

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

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

(i) *Use of Estimates*

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2018 and 2017.

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

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

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

<u>Investment Type</u>	<u>2018</u>		<u>2017</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 283,201	\$ 284,753	\$ 200,594	\$ 203,313
U.S. Government mortgage-backed securities	1,351,776	1,377,023	1,200,459	1,207,888
U.S. Agency debt obligations	2,721,100	2,752,571	2,842,212	2,836,632
Money market funds	<u>43,874</u>	<u>43,874</u>	<u>110,000</u>	<u>110,000</u>
TOTAL	<u>\$ 4,399,951</u>	<u>\$ 4,458,221</u>	<u>\$ 4,353,265</u>	<u>\$ 4,357,833</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

Custodial Credit Risk

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

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

Credit Risk

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

Standards and Poor's Rating	Estimated Fair Value 2018	Estimated Fair Value 2017
Money market funds – not rated	\$ 43,874	\$ 110,000
U.S. Government Securities and U.S. Treasury Securities – not rated	1,634,977	1,401,053
Rated AA+	<u>2,721,100</u>	<u>2,842,212</u>
	<u>\$ 4,399,951</u>	<u>\$ 4,353,265</u>

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2018:

	<u>Estimated Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 – 5 Years</u>	<u>5 – 10 Years</u>	<u>Over 10 Years</u>
U.S. Treasury bonds and notes	\$ 283,201	\$ 24,968	\$ 179,857	\$ 78,376	\$ -
U.S. Government mortgage- backed securities	1,351,776	112	4,522	183,987	1,163,155
U.S. Agency debt obligations	2,721,100	419,261	1,439,408	766,253	96,178
Money market funds	43,874	43,874	-	-	-
	<u>\$ 4,399,951</u>	<u>\$ 488,215</u>	<u>\$ 1,623,787</u>	<u>\$ 1,028,616</u>	<u>\$ 1,259,333</u>

Investment income for the years ended December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 108,327	\$ 104,311
Net realized loss	(6,488)	(6,983)
Unrealized net loss arising during the year	<u>(53,703)</u>	<u>(24,003)</u>
	<u>\$ 48,136</u>	<u>\$ 73,325</u>

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

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

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

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

Fair Value (continued)

The fair value of investment securities was determined as follows at December 31, 2018 and 2017:

December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 283,201	\$ -	\$ 283,201
U.S. Government mortgage- backed securities	-	1,351,776	1,351,776
U.S. Agency debt obligations	2,721,100	-	2,721,100
Money market funds	43,874	-	43,874
	<u>\$ 3,048,175</u>	<u>\$ 1,351,776</u>	<u>\$ 4,399,951</u>

December 31, 2017:

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>350</u>	\$ <u>350</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>231</u>	<u>276</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	141	186
Claims and claim adjustment expenses attributable to insured events of prior years	<u>90</u>	<u>90</u>
Total payments	<u>231</u>	<u>276</u>
Total unpaid claims and claims adjustment expenses liability at end of year	\$ <u><u>350</u></u>	\$ <u><u>350</u></u>

4. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 28, 2019, and determined that there were no events that require disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2018

Agency Head Name: John Gallagher

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2018, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 28, 2019

LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES on COMPLIANCE and CONTROL
AREAS

FOR THE YEAR ENDED DECEMBER 31, 2018



Postlethwaite & Netterville

A Professional Accounting Corporation

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Postlethwaite & Netterville

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INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated in Schedule A, which were agreed to by Louisiana Municipal Association (LMA or the Entity) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs. The Entity's management is responsible for those C/C areas identified in the SAUPs. The LMA Insurance Risk Pools consist of the following funds and will collectively be referred to as the Entity or the Fund's:

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

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

The procedures we performed and the associated 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 C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Baton Rouge, Louisiana
June 28, 2019

**LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS
DECEMBER 31, 2018**

Schedule A

Administration of the Funds are vested in the Executive Board of the Louisiana Municipal Association (LMA). LMA is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Funds. The Funds and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net position is available only to the respective entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14. LMA did not receive any state or federal funding during the year ended December 31, 2018.

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. Additionally, certain procedures listed below may not have been performed in accordance with guidance provided by the Louisiana Legislative Auditor, the specified user of the report. For those procedures, "procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity" is indicated.

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

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

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

Not applicable, see above.

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

Not applicable, see above.

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

Not applicable, see above.

**LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS
DECEMBER 31, 2018**

Schedule A

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

Not applicable, see above.

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

Not applicable, see above.

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

Not applicable, see above.

- 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 of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

Not applicable, see above.

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

Not applicable, see above.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

Not applicable, see above.

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

Not applicable, see above.

**LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS
DECEMBER 31, 2018**

Schedule A

Board or Finance Committee

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year.

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

Not applicable, see above.

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

Not applicable, see above.

- c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unrestricted fund balance in the general fund.

Not applicable, see above.

Bank Reconciliations

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

A listing of bank accounts was provided and included a total of 5 bank accounts. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected to test the bank reconciliations for all five bank accounts, resulting in five bank reconciliations obtained and subjected to the below procedures:

**LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS
AGREED-UPON PROCEDURES AND ASSOCIATED RESULTS
DECEMBER 31, 2018**

Schedule A

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

No exceptions noted.

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

No exceptions noted.

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

A total of 3 bank reconciliations included items that were more than 12 months outstanding. There was no documentation of management's research of these reconciling items.

Collections

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

A listing of deposit sites was provided which included five deposit sites. No exceptions were noted as a result of performing this procedure.

From the listing provided, we performed the procedures below on the five deposit sites.

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

A listing of collection locations for each deposit site selected in procedure #4 was provided and included one collection location for four funds and one lockbox location for another fund. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we randomly selected one collection location for each deposit site. Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

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

Not applicable.

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

No exceptions noted.

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

Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank and recording the related transaction.

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

No exceptions noted.

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

The Entity stated that all employees who have access to cash are bonded and/or covered under the Entity's insurance policy.

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

We randomly selected two deposit dates for each of the 3 bank accounts selected in procedure #3. One fund had all related party deposits, whereas the other fund only had lockbox deposits. Therefore, only three bank accounts were tested. We obtained supporting documentation for each of the 6 deposits and performed the procedures below.

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

The Entity does not maintain sequentially pre-numbered receipts.

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

The Entity does not maintain sequentially pre-numbered receipts, system reports, or other related collection documentation. As such, we were unable to perform the procedure.

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

No exceptions noted.

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

No exceptions noted.

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

No exceptions noted.

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

8. Obtain a listing of locations that process payments for the fiscal period and management's representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

The listing of locations that process payments for the fiscal period was provided, which included five funds and one location. No exceptions were noted as a result of performing this procedure.

From the listing provided, we performed the procedures below.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

The listing of employees involved with non-payroll purchasing and payment functions for each payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

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

Not applicable due to nature of purchases.

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

No exception noted.

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

The person processing payments was not prohibited from adding / modifying vendor files.

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

No exception noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

A listing of non-payroll disbursements for each payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we randomly selected 5 disbursements and performed the procedures below.

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

No exceptions noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

For the 5 disbursements selected for our procedures, a single employee processes payments and has access to add/modify vendor files.

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

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

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

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

Not applicable as noted above.

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- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

Not applicable as noted above.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

Not applicable as noted above.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

Not applicable as noted above.

Travel and Travel-Related Expense Reimbursements (excluding card transactions)

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

Not applicable. See #1 above.

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

Not applicable as noted above.

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

Not applicable as noted above.

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

Not applicable as noted above.

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

Not applicable as noted above.

Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

Procedure was not performed due to no exceptions occurring for this procedure in the prior year.

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

Not applicable as noted above.

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

Not applicable as noted above.

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

Not applicable as noted above.

d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

Not applicable as noted above.

Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Not applicable. See #1 above.

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17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

Not applicable as noted above.

- a) Observe that 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.)

Not applicable as noted above.

- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

Not applicable as noted above.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Not applicable as noted above.

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.:

Not applicable as noted above.

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

Not applicable as noted above.

Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:

- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Not applicable. See #1 above.

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- b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

Not applicable as noted above.

Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Not applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

Not applicable.

Other

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

No exceptions noted.

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

Procedure was not performed due to no exceptions occurring for this procedure in the prior year.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

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

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

June 26, 2019

Corrective Action Response to 2018 Statewide AUPs:

We have reviewed the 2018 AUP Report. We only noted a few exceptions throughout the report. We would like to address items: [3C: Bank Reconciliations and 5C Collections].

3C: A total of 3 bank reconciliations included items that were more than 12 months outstanding. There was no documentation of management's research of these reconciling items.

Management Response: We will strengthen our efforts in this area. Management is considering the possibility of hiring additional qualified staff or contracting with a consultant to help in this and other areas.

5C: Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank and recording the related transaction.

Management Response: Management believes that there are adequate controls in place to prevent misappropriation. Although the same employee (Clerk 1) deposits checks and records the deposit into the AR Module, a second employee (Clerk 2) reviews, posts and transfers the deposits from the AR Module to the accounting system. A third employee (Sr. Accountant) prepares the bank reconciliation which is reviewed and approved by the CFO.

Kerry Landry



Chief Financial Officer

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