
LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

ANNUAL FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of Louisiana Patient's Compensation Fund Oversight Board (the Board), as of the June 30, 2019 and 2018, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Louisiana Patient's Compensation Fund Oversight Board as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's proportionate share of net pension liability, schedule of employer's contributions and schedule of changes in net other post-employment liability and related ratios on pages 4 through 8 and pages 42 through 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Board's financial statements as a whole. The accompanying other supplementary information, which includes the schedule of per diem paid to board members and the schedule of compensation, benefits and other payments to the executive director on pages 46 and 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2019, on our consideration of the Board's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
November 25, 2019

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

JUNE 30, 2019

(UNAUDITED)

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

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

Management's Discussion and Analysis of the Louisiana Patient's Compensation Fund Oversight Board financial performance presents a narrative overview and analysis of the Board's financial activities for the year ended June 30, 2019. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this document in conjunction with the additional information contained in the Board's financial statements.

FINANCIAL HIGHLIGHTS

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

- The Board's assets and deferred outflows exceeded its liabilities and deferred inflows at the close of fiscal year 2019 by \$296,940,042, a net increase of \$30,878,200 during the year. The prior year reflected a net position of \$266,061,842.
- The Board's primary source of operating revenues is from surcharge assessments of enrolled participants which decreased during 2019. While there was an overall surcharge rate increase of 1.2% implemented during the year, several provider class surcharge rates were decreased. The overall surcharge rate increase was not sufficient to offset the decreases in these provider classes.
- Net investment income for the 2019 fiscal year was \$69,741,991 and consisted of net realized gains and net unrealized appreciation of invested assets of \$40,431,468, interest and dividend income earned of \$30,009,937, and expenses of \$699,414. Net investment income related to the Board's investment portfolio increased by approximately 229.5% from the fiscal year 2018 related primarily to changes in the market values of the portfolio. The Board's assets are invested in accordance with an investment policy which is comprised of professionally managed investment portfolio of fixed income and equity securities.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

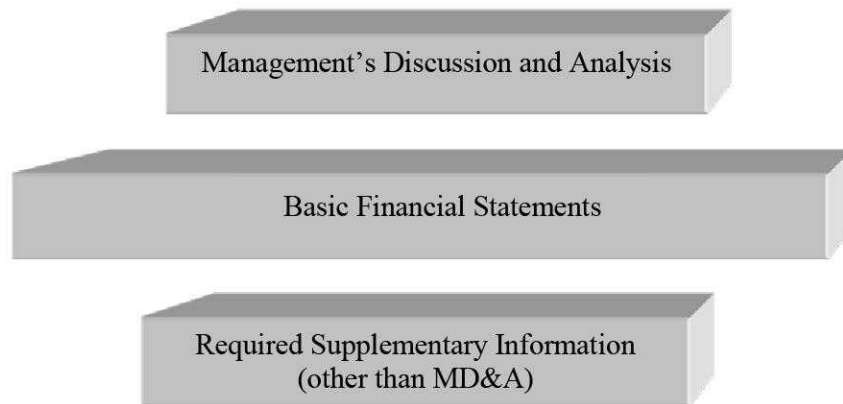
JUNE 30, 2019

(UNAUDITED)

- Operating expenses consist primarily of incurred claims and claims adjustment expenses. The Board's claims expense during the current year increased by approximately 22.5% from the prior year. The number of new claims incurred by the Board decreased in fiscal year 2019; however, the severity of the claims increased. Additionally, the Board recognized unfavorable development of \$22.4 million emerging during the current fiscal year from re-estimation of reserves associated with losses incurred during prior years. By comparison, the Board experienced unfavorable development during the prior fiscal year of \$2.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

Basic Financial Statements

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

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

JUNE 30, 2019

(UNAUDITED)

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

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

FINANCIAL ANALYSIS OF THE ENTITY

Condensed Statements of Net Position
as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash and invested assets	\$ 1,174,682,000	\$ 1,115,297,000
Other assets	<u>16,479,000</u>	<u>14,471,000</u>
Total assets	<u>1,191,161,000</u>	<u>1,129,768,000</u>
Deferred outflows	<u>1,966,000</u>	<u>2,032,000</u>
Claims payable	810,415,000	782,278,000
Other liabilities	<u>85,033,000</u>	<u>82,747,000</u>
Total liabilities	<u>895,448,000</u>	<u>865,025,000</u>
Deferred inflows	<u>739,000</u>	<u>713,000</u>
Net position	<u>\$ 296,940,000</u>	<u>\$ 266,062,000</u>

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

The Board's operations resulted in an increase in net position of \$30,878,200 during the year ended June 30, 2019. The favorable operating results are attributed to a net investment income of \$69,741,991.

The Board incurred claims that relate to the current year of approximately \$150,167,000 and \$138,530,000, for the years ended June 30, 2019 and 2018, respectively. Unfavorable development of approximately \$22,407,000 and \$2,299,000 related to re-estimation of reserves associated with losses incurred in prior years resulted in net incurred claims of approximately \$172,574,000 and \$140,829,000 for the years ended June 30, 2019 and 2018, respectively.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

JUNE 30, 2019

(UNAUDITED)

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position
for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 139,563,000	\$ 146,381,000
Operating expenses	<u>178,427,000</u>	<u>146,482,000</u>
Operating loss	(38,864,000)	(101,000)
Non-operating investment income	<u>69,742,000</u>	<u>21,169,000</u>
Net increase in net position	<u>\$ 30,878,000</u>	<u>\$ 21,068,000</u>

The Board's total operating revenues consisted primarily of surcharge revenues from enrolled participants. Surcharge revenues decreased during the year ended June 30, 2019. While there was an overall surcharge rate increase of 1.2% implemented during the year, several provider class surcharge rates were decreased. The overall surcharge rate increase was not sufficient to offset the decreases in these provider classes. Subsequent to June 30, 2019, the Board has implemented surcharge rates which are expected to increase overall surcharge rates by approximately 7.8% beginning in September 2019.

Operating expenses consist primarily of claims-related expenses. Claims-related expenses increased during the year ended June 30, 2019, due to increases in the severity of new claims incurred, and adverse development of claims reserves established in prior years. The Board's claims expense incurred during fiscal year 2019 increased to 123.9% of surcharge revenues earned compared to 96.4% during 2018. The loss ratio was impacted by the changes in loss reserve development estimates described previously.

Net investment income increased \$48,573,160 during the year ended June 30, 2019, as compared to 2018, primarily due to favorable changes in the fair value of the Board's investment portfolio during the current year. The Board's investment portfolio experienced overall increases in fair value in the current year due to overall market conditions. Changes in estimated fair values of investments each year are included in net investment income and result from changes in overall interest rate and credit market conditions.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

Management's Discussion and Analysis

JUNE 30, 2019

(UNAUDITED)

Capital Assets

At June 30, 2019, the Board had \$24,842 invested in capital assets, net of depreciation, including equipment and IT systems necessary to carry out the Board's activities.

Debt

The Board had no bonds and notes outstanding at June 30, 2019 or 2018.

The Board has established estimated reserve liabilities for claims and judgments of \$810,415,000 at June 30, 2019 compared with \$782,278,000 at June 30, 2018. These reserve obligations are actuarially estimated using the best information available and are subject to revisions to those estimates. The Board expects these obligations to become due and paid in amounts consistent with recent years as described in Note 6 to the financial statements. The loss reserves are recognized on a discounted basis which considers the long-tailed payout patterns of the loss reserves.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

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

The Board approved changes in its surcharge rates to members effective September 2, 2019. The new surcharge rates are expected to increase overall surcharge rates by approximately 7.8% beginning in September 2019.

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

CONTACTING THE LOUISIANA PATIENT'S COMPENSATION FUND OVERSIGHT BOARD MANAGEMENT

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	2019	2018
Assets and Deferred Outflows		
Cash and cash equivalents (note 2)	\$ 43,793,920	\$ 34,493,633
Investments (note 3)	1,130,769,890	1,080,696,711
Investments, restricted (note 13)	117,771	106,765
Total cash and invested assets	1,174,681,581	1,115,297,109
Receivables (note 4)	16,454,315	14,440,876
Capital assets, net of depreciation (note 5)	24,842	29,919
Total other assets	16,479,157	14,470,795
Deferred outflows of resources – Pension (note 7)	1,713,021	1,902,024
Deferred outflows of resources – OPEB (note 8)	253,163	129,848
Total deferred outflows of resources	1,966,184	2,031,872
Total assets and deferred outflows	\$ 1,193,126,922	\$ 1,131,799,776
Liabilities and Deferred Inflows		
Claims payable (note 6)	\$ 810,415,000	\$ 782,278,000
Unearned revenues (note 11)	65,946,981	63,935,810
Refunds payable (note 11)	2,643,980	2,552,801
Accounts payable and accrued expenses (note 10)	825,269	824,878
OPEB payable (note 8)	6,288,213	6,086,549
Net pension liability (note 7)	9,328,296	9,347,214
Total liabilities	895,447,739	865,025,252
Deferred inflows of resources – Pension (note 7)	256,010	331,103
Deferred inflows of resources – OPEB (note 8)	483,131	381,579
	739,141	712,682
Net Position		
Net investment in capital assets	24,842	29,919
Restricted net position (note 13)	117,771	106,765
Unrestricted net position	296,797,429	265,925,158
Total net position	296,940,042	266,061,842
Total liabilities, deferred inflows, and net position	\$ 1,193,126,922	\$ 1,131,799,776

See accompanying notes to these financial statements.

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

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Operating revenues		
Surcharges	\$ 139,284,645	\$ 146,093,398
Filing fees	278,370	287,953
Total operating revenues	<u>139,563,015</u>	<u>146,381,351</u>
Operating expenses		
Claims and claims adjustment expenses	172,573,632	140,829,503
Personnel expenses	4,566,568	4,470,812
Operating services	737,489	702,263
Professional services	457,492	366,616
Supplies	22,992	17,488
Travel	19,952	21,844
Capital outlay	36,313	62,710
Depreciation	12,368	10,910
Total operating expenses	<u>178,426,806</u>	<u>146,482,146</u>
Operating loss	<u>(38,863,791)</u>	<u>(100,795)</u>
Non-operating revenues		
Investment income, net (note 3)	69,741,991	21,168,831
Total non-operating revenues	<u>69,741,991</u>	<u>21,168,831</u>
Change in net position	<u>30,878,200</u>	<u>21,068,036</u>
Net position, beginning of year	266,061,842	247,045,062
Restatement for GASB 75 (note 8)	-	(2,051,256)
Net position, beginning of year as restated	<u>266,061,842</u>	<u>244,993,806</u>
Net position, end of year	<u>\$ 296,940,042</u>	<u>\$ 266,061,842</u>

See accompanying notes to these financial statements.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Cash received from covered enrollees and customers	\$ 139,681,384	\$ 137,024,055
Cash paid for benefit of claimants and service providers	(144,436,631)	(137,217,503)
Cash paid to suppliers for goods and services	(1,305,683)	(1,066,784)
Cash paid to employees for services	(4,259,840)	(4,151,917)
Net cash used in operating activities	(10,320,770)	(5,412,149)
Cash flows from investing activities		
Purchases of investment securities	(184,426,324)	(340,148,898)
Proceeds from sale/redemption of investment securities	164,955,534	282,755,210
Interest and dividends earned on investment securities, net	39,099,138	36,970,719
Net cash provided by (used in) investing activities	19,628,348	(20,422,969)
Cash flows from capital and related financing activities		
Purchases of capital assets	(7,291)	(10,220)
Net cash used in capital and related financing activities	(7,291)	(10,220)
Net increase (decrease) in cash and cash equivalents	9,300,287	(25,845,338)
Cash and cash equivalents, beginning of year	34,493,633	60,338,971
Cash and cash equivalents, end of year	\$ 43,793,920	\$ 34,493,633

See accompanying notes to these financial statements.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (38,863,791)	\$ (100,795)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	12,368	10,910
Increase in accounts receivable	(1,983,981)	(4,579,625)
Increase in accounts payable	20,124	52,568
Increase (decrease) in accrued payroll and related benefits	9,944	(787)
Increase (decrease) in unearned revenue	2,011,171	(4,439,385)
Increase (decrease) in accrued compensated absences	21,891	(6,558)
Increase (decrease) in OPEB payable	201,664	(145,054)
Increase in pension expenses	73,229	471,294
Increase in liability for claims reserve	28,137,000	3,612,000
Increase (decrease) in other liabilities	39,611	(286,717)
	<u>\$ (10,320,770)</u>	<u>\$ (5,412,149)</u>

See accompanying notes to these financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities and Entity

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

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

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

Basis of Presentation

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

Reporting Entity

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

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

Basis of Accounting

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

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

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement (GASB) 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements*.

Net Position

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position (continued)

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

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

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

Operating / Non-Operating Revenues and Expenses

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

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

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Investments

Cash includes petty cash, demand deposits and short term certificates of deposit. The Board's investment policy provides that the Board may invest in securities including United States Treasury obligations, United States government agency obligations, direct security repurchase agreements, high quality corporate debt securities, or in eligible mutual funds that invest in these types of securities. The Board may also invest no more than twenty-five percent of its investment portfolio in equity securities subject to certain other limitations. Investments are recorded at the estimated fair value of the respective securities in the statements of net position. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value as described in Note 3. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income.

Capital Assets

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

Compensated Absences

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unpaid Claims Liability

The Board provides medical malpractice excess coverage for claims incurred during the period of coverage provided to participants. Coverage can be obtained from the Board on a claims-made or occurrence basis and to cover tail obligations. The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and for claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved and the nature and severity of the claimed loss and damages asserted. Because ultimate claims costs depend on complex factors such as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverage such as medical malpractice liability. Claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on actual historical data that reflects past inflation, trends in the commercial medical malpractice insurance industry, and on other factors that are considered to be appropriate modifiers of past experience.

Adjustments to claims liabilities are charged or credited to claims expense in the periods in which additional information becomes available and are considered changes in estimates. The carrying amount of estimated liabilities for claims losses and claims expense are discounted to present value in the financial statements.

Income Taxes

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

Pensions

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of Risk

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

Use of Estimates

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

NOTE 2 – CASH AND CASH EQUIVALENTS

At June 30, 2019 and 2018, the Board had cash deposits with banks totaling \$16,212,346 and \$13,538,779, respectively. The Board also has custodial accounts at a bank trust department totaling \$27,581,574 and \$20,954,854, at June 30, 2019 and 2018, respectively, which are considered cash equivalents.

Cash and cash equivalents are stated at cost, which approximates fair value. The fair value of the pledged securities plus the federal security must at all times equal the amount on deposit with the fiscal agents. At June 30, 2019 and 2018, the Board has \$23,881,500 and \$18,999,514, respectively, in deposits (collected bank balances) that were insured or collateralized with securities held by the Board or its agent in the Board's name.

NOTE 3 – INVESTMENTS

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

The Board has adopted investment policies and guidelines and retains professional investment managers to manage the investment portfolio. The Board's investment policy provides ranges of asset allocations which include the following target allocations at June 30, 2019:

Liquidity investments	2%
Fixed income – investment grade	74%
Fixed income – risk debt	8%
Equities – domestic	10%
Equities – international	6%
	<u>100%</u>

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – INVESTMENTS (continued)

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

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

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

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

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 – INVESTMENTS (continued)

The Board's investments are recorded at estimated fair value as required by GASB 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, and consisted of the following at June 30, 2019 and 2018:

June 30, 2019:

	June 30, 2019	Fair Values		
		Level 1	Level 2	Level 3
Fixed Income Investments:				
U.S. Government obligations	\$ 121,716,680	\$ 121,716,680	\$ -	\$ -
Corporate bonds	189,504,607	-	189,504,607	-
U.S. Agency mortgage-backed securities	179,324,223	-	179,324,223	-
Other mortgage-backed securities	103,325,884	-	103,325,884	-
Commercial asset-backed securities	77,272,451	-	77,272,451	-
Municipal bonds	170,682,955	-	170,682,955	-
	<u>841,826,800</u>	<u>121,716,680</u>	<u>720,110,120</u>	<u>-</u>
Mutual Funds Primarily Invested In:				
Diversified domestic equity securities	123,294,848	123,294,848	-	-
Diversified international equity securities	58,210,069	58,210,069	-	-
High yield corporate bonds	23,202,639	23,202,639	-	-
High yield bank loans	23,426,147	23,426,147	-	-
	<u>228,133,703</u>	<u>228,133,703</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value Level	<u>\$ 1,069,960,503</u>	<u>\$ 349,850,383</u>	<u>\$ 720,110,120</u>	<u>\$ -</u>
Investments In Investment Pools Measured at Net Asset Value:				
Emerging market debt	\$ 23,651,860			
International equity	13,802,761			
High yield bank loans	23,354,766			
Total Investments Measured at Net Asset Value	<u>\$ 60,809,387</u>			
Total Investments at Fair Value	<u>\$ 1,130,769,890</u>			

The unfunded commitments and redemption terms for commingled investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2019, is presented in the following table:

	Fair Value June 30, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Emerging market debt	\$ 23,651,860	\$ -	Daily	N/A
International equity	13,802,761	-	Month end	30 Days
High yield bank loans	23,354,766	-	Daily	N/A
	<u>\$ 60,809,387</u>	<u>\$ -</u>		

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 – INVESTMENTS (continued)

June 30, 2018:

	June 30, 2018	Fair Values		
		Level 1	Level 2	Level 3
Fixed Income Investments:				
U.S. Government obligations	\$ 135,033,741	\$ 135,033,741	\$ -	\$ -
Corporate bonds	201,908,774	-	201,908,774	-
U.S. Agency mortgage-backed securities	136,064,880	-	136,064,880	-
Other mortgage-backed securities	107,445,192	-	107,445,192	-
Commercial asset-backed securities	78,181,805	-	78,181,805	-
Municipal bonds	153,135,553	-	153,135,553	-
	<u>811,769,945</u>	<u>135,033,741</u>	<u>676,736,204</u>	<u>-</u>
Mutual Funds Primarily Invested In:				
Diversified domestic equity securities	118,554,699	118,554,699	-	-
Diversified international equity securities	63,890,848	63,890,848	-	-
High yield corporate bonds	22,146,556	22,146,556	-	-
High yield bank loans	20,601,695	20,601,695	-	-
	<u>225,193,798</u>	<u>225,193,798</u>	<u>-</u>	<u>-</u>
Total Investments at Fair Value Level	<u>\$ 1,036,963,743</u>	<u>\$ 360,227,539</u>	<u>\$ 676,736,204</u>	<u>\$ -</u>

Investments In Investment Pools Measured at Net

Asset Value:

Emerging market debt	\$ 21,290,851
High yield bank loans	<u>22,442,117</u>
Total Investments Measured Net Asset Value	<u>\$ 43,732,968</u>

Total Investments at Fair Value \$ 1,080,696,711

The unfunded commitments and redemption terms for commingled investments measured at the net asset value (NAV) per share (or its equivalent) as of June 30, 2018, is presented in the following table:

	Fair Value June 30, 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at NAV:				
Emerging market debt	\$ 21,290,851	\$ -	Daily	N/A
High yield bank loans	<u>22,442,117</u>	<u>-</u>	Month end	30 Days
	<u>\$ 43,732,968</u>	<u>\$ -</u>		

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – INVESTMENTS (continued)

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool used to assess credit risk on debt obligations. The Board's investment managers monitor credit ratings of the fixed income securities which vary from high quality U.S. Government debt obligations to BB. The weighted average credit quality of the fixed income investments was AA at June 30, 2019.

<u>Standard & Poor's Rating</u>	<u>Percentage of portfolio</u>
AAA	19.4%
AA	60.7%
A	10.2%
BBB	9.6%
BB	0.1%

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

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

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in overall market interest rates. A common indicator of the measure of interest rate risk sensitivity is the dispersion of maturity dates and effective duration for fixed income instruments. Generally, longer term or duration securities have an increased risk of valuation fluctuations related to market interest rate changes.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 – INVESTMENTS (continued)

A summary of the estimated fair value of the Board's investments in fixed income instruments at June 30, 2019, by contractual maturity, is provided below as an indication of those securities to interest rate risks.

	<u>Estimated Fair Value</u>
Period to maturity:	
Six months	\$ 14,472,910
One calendar year	75,980,205
Calendar years two through six	252,619,157
Calendar years seven through ten	60,169,179
Beyond ten calendar years	78,662,791
Asset-backed securities	<u>359,922,558</u>
Total	<u>\$ 841,826,800</u>

The expected maturities in the foregoing table may differ from the contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities consist of pools of mortgages and other loans comprising these securities have continuous repayments with varying repayment patterns, which are generally viewed to mitigate exposure to interest rate risk.

Custodial Credit Risk

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

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

Net Investment Income

Net investment income for the years ended June 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income earned	\$ 30,009,937	\$ 26,002,159
Realized gains – net	2,162,502	9,741,842
Unrealized gains (losses) arising during the year - net	<u>38,268,966</u>	<u>(13,776,849)</u>
Investment income	70,441,405	21,967,152
Investment expenses	<u>(699,414)</u>	<u>(798,321)</u>
Investment income - net	<u>\$ 69,741,991</u>	<u>\$ 21,168,831</u>

The Board's investment portfolio is recorded at fair value and the associated changes in fair values of all investments are included in net investment income each year as net unrealized gain or losses. The Board's overall investment portfolio experienced net unrealized gains during the year ended June 30, 2019, associated with changes in fair value of its portfolio, which is influenced by overall market interest rates and other market based influences and expectations outside of management's control. The Board's investment policies are based on long-term objectives and not short-term market conditions, which are required to be reflected in net investment income in each accounting period.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 – RECEIVABLES

At June 30, 2019 and 2018, the Board had receivables comprised of the following:

	<u>2019</u>	<u>2018</u>
Surcharges receivable	\$ 11,040,146	\$ 9,556,165
Accrued investment income	4,914,169	4,884,711
Receivable for pending investment transaction	<u>500,000</u>	<u>-</u>
Total receivable	<u>\$ 16,454,315</u>	<u>\$ 14,440,876</u>

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

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

NOTE 5 – CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets were as follows:

June 30, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture & equipment	\$ 158,921	\$ 7,291	\$ 12,651	\$ 153,561
Less accumulated depreciation	(129,002)	(12,368)	(12,651)	(128,719)
Capital assets, net	<u>\$ 29,919</u>	<u>\$ (5,077)</u>	<u>\$ -</u>	<u>\$ 24,842</u>

June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Furniture & equipment	\$ 154,531	\$ 10,220	\$ 5,830	\$ 158,921
Less accumulated depreciation	(123,922)	(10,910)	(5,830)	(129,002)
Capital assets, net	<u>\$ 30,609</u>	<u>\$ (690)</u>	<u>\$ -</u>	<u>\$ 29,919</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 – CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved and the nature and severity of the claimed loss and damages asserted. Because ultimate claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverage such as medical malpractice liability. Claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed on actual historical data that reflects past inflation, trends in the medical malpractice insurance industry, and on other factors that are considered to be appropriate modifiers of past experience. Because of the nature of the medical malpractice losses coverage provided by the Board, the Board is routinely involved in numerous malpractice-related claims and legal actions arising from the normal conduct of business. Management of the Board and its actuarial professionals regularly establish estimated liabilities for reported and unreported contingencies associated with these claims.

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

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

The following represents changes in the Board's estimated liability for unpaid claims reserves during the years ended June 30, 2019 and 2018 (amounts in thousands):

	<u>2019</u>	<u>2018</u>
Liability for unpaid claims at beginning of year	\$ 782,278	\$ 778,666
Net incurred related to:		
Current year	150,167	138,530
Prior years	<u>22,407</u>	<u>2,299</u>
Total incurred	<u>172,574</u>	<u>140,829</u>
Net paid related to:		
Current year	11,468	9,371
Prior years	<u>132,969</u>	<u>127,846</u>
Total paid	<u>144,437</u>	<u>137,217</u>
Liability for unpaid claims at end of year	\$ <u>810,415</u>	\$ <u>782,278</u>

During the years ended June 30, 2019 and 2018, the Board experienced unfavorable development of approximately \$22.4 million and \$2.3 million, respectively, due to revised estimates of the ultimate costs necessary to satisfy the Board's claims obligations established in prior years. These updated estimates incorporate revised case reserve estimates, changes in trends of the Board's claims activity and overall changes in the commercial medical malpractice insurance industry.

In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise process that reflects significant judgmental factors. Management believes that the aggregate loss reserves at June 30, 2019, are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through June 30, 2019, will not vary from the above estimates, and such difference could be significant.

The Board's estimated claims reserves have been discounted based on anticipated payout patterns and a discount rate assumption which management expects to approximate the investment earnings over the payout period of the claims obligations. The Board has utilized a discount rate assumption of 3.0%, which reduced the above reported claims reserve liability by \$162 million and \$152 million at June 30, 2019 and 2018, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM

Plan Description

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

Benefits Provided

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

Retirement

The age and years of creditable service required in order for a member to retire with full benefits are established by statute, and vary depending on the member's hire date, employer, and job classification. The majority of LASERS rank and file members may either retire with full benefits at any age upon completing 30 years of creditable service or at age 60 upon completing five to ten years of creditable service, depending on their plan. Those members hired between July 1, 2006 and June 30, 2015, may retire at age 60 upon completing five years of creditable service. The basic annual retirement benefit for members is equal to 2.5% to 3.5% of average compensation multiplied by the number of years of creditable service. Additionally, members may choose to retire with 20 years of service at any age, with an actuarially reduced benefit.

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

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 – RETIREMENT SYSTEM (continued)

Retirement (continued)

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

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

Deferred Retirement Benefits

The State Legislature authorized LASERS to establish a Deferred Retirement Option Plan (DROP). When a member enters DROP, their status changes from active member to retiree even though they continue to work and draw their salary for a period of up to three years. The election is irrevocable once participation begins. During DROP participation, accumulated retirement benefits that would have been paid to each retiree are separately tracked. For members who entered DROP prior to January 1, 2004, interest at a rate of one-half percent less than the System's realized actuarial return on its portfolio (not to be less than zero) will be credited to the retiree after participation ends. At that time, the member must choose among available alternatives for the distribution of benefits that have accumulated in the DROP accounts. Members who enter DROP on or after January 1, 2004, are required to participate in LASERS Self-Directed Plan (SDP), which is administered by a third-party provider. The SDP allows DROP participants to choose from a menu of investment options for the allocation of their DROP balances. Participants may diversify their investments by choosing from an approved list of mutual funds with different holdings, management styles, and risk factors.

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

Disability Benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 – RETIREMENT SYSTEM (continued)

Survivor's Benefits

Certain eligible surviving dependents receive benefits based on the deceased member's compensation and their relationship to the deceased. The deceased regular member hired before January 1, 2011, who was in state service at the time of death must have a minimum of five years of service credit, at least two of which were earned immediately prior to death, or who had a minimum of twenty years of service credit regardless of when earned in order for a benefit to be paid to a minor or handicapped child. Benefits are payable to an unmarried child until age 18, or age 23 if the child remains a full-time student. The aforementioned minimum service credit requirement is ten years for a surviving spouse with no minor children, and benefits are to be paid for life to the spouse or qualified handicapped child.

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

Permanent Benefit Increases/Cost-of-Living Adjustments

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

Contributions

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

The Board's contractually required composite contribution rate for the years ended June 30, 2019 and 2018 was 37.9% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any Unfunded Actuarial Accrued Liability. Contributions to the pension plan from the Board were \$1,062,966 and \$972,955 for the years ended June 30, 2019 and 2018, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM (continued)

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

At June 30, 2019 and 2018, the Board reported a liability of \$9,328,296 and \$9,347,214, respectively, for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of one fiscal year prior, the most recent data available, and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net Pension Liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the Board's proportion was 0.13678%, which was an increase of 0.00398% from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, the Board recognized pension expense of \$761,548 and \$855,311, respectively, plus the employer's amortization of change in proportionate share and differences between employer contributions and proportionate share of contributions which was \$396,409 and \$245,359 for the years ended June 30, 2019 and 2018, respectively.

At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2019</u>		<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ (104,607)	\$ -	\$ (171,510)
Change in assumptions	94,923	-	36,927	-
Net difference between projected and actual earnings on pension plan investments	120,957	-	303,954	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	434,177	(151,403)	588,188	(159,593)
Board contributions subsequent to the measurement date	<u>1,062,964</u>	<u>-</u>	<u>972,955</u>	<u>-</u>
Total	<u>\$ 1,713,021</u>	<u>\$ (256,010)</u>	<u>\$ 1,902,024</u>	<u>\$ (331,103)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM (continued)

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

Deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date of \$1,062,964 will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years ending:</u>	
June 30, 2020	\$ 464,119
June 30, 2021	192,037
June 30, 2022	(227,968)
June 30, 2023	(34,141)

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM (continued)

Actuarial Assumptions

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2019, and 2018 are as follows:

Valuation Date	June 30, 2018 and 2017
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Expected Remaining Service Lives	3 years.
Investment Rate of Return	7.65% and 7.70% per annum, net of investment expenses*.
Inflation Rate	2.75% per annum.
Mortality	Non-disabled members - Mortality rates based on the RP-2000 Combined Healthy Mortality Table with mortality improvement projected to 2015. Disabled members – Mortality rates based on the RP-2000 Disabled Retiree Mortality Table, with no projection for mortality improvement.
Termination, Disability, and Retirement	Termination, disability, and retirement assumptions were projected based on a five-year (2009-2013) experience study of the System's members.
Salary Increases	Salary increases were projected based on a 2009-2013 experience study of the System's members. The salary increase ranges for the Board's members have a lower range of 3.8% and an upper range of 12.8%.
Cost of Living Adjustments	The present value of future retirement benefits is based on benefits currently being paid by the System and includes previously granted cost of living increases. The projected benefit payments do not include provisions for potential future increases not yet authorized by the System's Board of Trustees as they were deemed not to be substantively automatic.

*The investment rate of return used in the actuarial valuation for funding purposes was 8.05% and 8.16%, recognizing an additional 40 basis points for gain sharing.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 3.25% and an adjustment for the effect of rebalancing/diversification. The resulting expected long term rate of return is 8.83% for 2018. Best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	0%	-0.48%
Domestic equity	23%	4.31%
International equity	32%	5.26%
Domestic fixed income	6%	1.49%
International fixed income	10%	2.23%
Alternative investments	22%	7.67%
Global asset allocation	7%	4.96%
Total	<u>100%</u>	

Discount Rate

The discount rate assumption used to measure the total pension liability was 7.65% and 7.70% at June 30, 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 – RETIREMENT SYSTEM (continued)

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

The following presents the Board's proportionate share of the LASERS Net Pension Liability at June 30, 2019 using the discount rate of 7.65%, as well as what the Board's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate assumption that is one percentage-point lower (6.65%) or one percentage-point higher (8.65%) than the current rate assumption:

	<u>1.0% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1.0% Increase (8.65%)</u>
2019 Employer's proportionate share of the net pension liability	\$11,772,930	\$9,328,296	\$7,222,865
2018 Employer's proportionate share of the net pension liability	\$11,734,367	\$9,347,214	\$7,317,568

Payables to the Pension Plan

The Board recorded accrued liabilities to the LASERS retirement system for the years ended June 30, 2019 and 2018, mainly due to the accrual for payroll of \$94,887 and \$92,657, respectively.

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Plan Description

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

Benefits Provided

The OPEB Plan provides benefits such as: death benefits, life insurance, disability, and long term care that are paid in the period after employment and that are provided separately from a pension plan; as well as health care benefits paid in the period after employment for retirees, disabled retirees, and their eligible beneficiaries through premium subsidies.

OGB offers retirees under age 65 a choice of three self-insured health care plans and one fully insured plan. Retired employees who have Medicare Part A and Part B coverage have access to these plans and an additional two fully insured Medicare Advantage HMO plans, one fully insured plan, and one zero premium HMO plan.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

(continued)

Funding Policy

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

<u>OGB Participation</u>	<u>Employer Contribution</u>	<u>Retiree Contribution</u>
Under 10 years	19%	81%
10 – 14 years	38%	62%
15 – 19 years	56%	44%
20 or more years	75%	25%

In addition to health care benefits, retirees may elect to receive life insurance benefits. Basic and supplemental life insurance are available for the individual retiree and spouses of retirees, subject to maximum values. The retiree pays \$0.54 monthly for each \$1,000 of life insurance. The retiree pays \$0.98 monthly for each \$1,000 of spouse life insurance. The employer pays the remaining amount.

Other post-employment benefits (OPEB) administered through the OGB are financed on a pay-as-you-go basis. OPEB contributions to the plan are generally made at about the same time and in about the same amount as benefit payments become due.

OPEB Related Liabilities, Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources

At June 30, 2019 and 2018, the Board reported a liability of \$6,228,213 and \$6,086,549, respectively, for its share of the net OPEB liability. The net OPEB liability was measured as of one fiscal year prior, the most recent data available, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. The Board's proportion was actuarially determined and was based on its proportionate share of the State of Louisiana's total OPEB liability. At June 30, 2018, the Board's proportion was 0.1157%, which was 0.0042% higher than the proportion used for the June 30, 2017 measurement.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

(continued)

OPEB Related Liabilities, Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources

(continued)

	<u>2019</u>	<u>2018</u>
Changes in the Total OPEB Liability		
Balance at June 30, 2018	\$ 6,086,549	\$ 4,088,500
Changes for the year:		
Service cost	222,293	240,471
Interest	194,949	173,843
Differences between expected and actual experience	159,725	-
Changes in assumptions	(236,834)	(467,521)
Benefit payments	<u>(138,469)</u>	<u>(115,158)</u>
Net changes	<u>201,664</u>	<u>(168,365)</u>
Adjustment for GASB 75	<u>-</u>	<u>2,166,414</u>
Balance at June 30, 2019	\$ <u>6,288,213</u>	\$ <u>6,086,549</u>

For the year ended June 30, 2019 and 2018, the Board recognized OPEB expense of \$315,236 and \$328,373, respectively. At June 30, 2019 and 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2019</u>		<u>2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 126,449	\$ -	\$ -	\$ -
Change in assumptions	-	(483,131)	-	(381,579)
Employer contributions subsequent to the measurement date	<u>126,714</u>	<u>-</u>	<u>129,848</u>	<u>-</u>
Total	\$ <u>253,163</u>	\$ <u>(483,131)</u>	\$ <u>129,848</u>	\$ <u>(381,579)</u>

Deferred outflows of resources related to OPEB resulting from OPEB payments subsequent to the measurement date of \$126,714 will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Amounts reported as deferred inflows or resources relations to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30</u>	<u>OPEB Expense</u>
2020	\$ (102,006)
2021	(102,006)
2022	(102,006)
2023	<u>(50,664)</u>
Total	<u>\$ (356,682)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

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

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	2.8% Consumer Price Index
Salary Increases	Consistent with the pension plan valuation assumptions in which employees participate.
Discount Rate	2.98% based on the June 30, 2018 S&P 20 year municipal bond index rated.
Health Care Cost Trend Rate	Pre-age 65 ranges from 7.0% to 4.5% Post-age 65 ranges from 5.5% to 4.5%
2019 Mortality	For healthy lives: the RP-2014 Combined Healthy Mortality Table, rolled back to 2006 using RP-2014 projection and then projected on a fully generational basis by Mortality Improvement Scale MP-2018.
2018 Morality	For disabled retiree lives: the RP-2014 Retiree Mortality Table, rolled back to 2006 using RP-2014 projection and then projected on a fully generational basis by Mortality Improvement Scale MP-2018.

The actuarial assumptions used by the pension plan covering the same participants were used for the retirement, termination, disability, and salary scale assumptions. There were no changes in benefit terms for 2018.

No changes in benefits or assumptions have occurred between the June 30, 2018 measurement date of the collective total OPEB liability and the June 30, 2019 reporting date of the Board that are expected to have a significant effect on the Board's share of the collective total OPEB liability.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.98%, and was based on the Standards & Poor's Municipal Bond 20 year high grade rate index as of June 30, 2018. The discount rate used to measure the total OPEB liability was changed from 3.13% in the June 30, 2017 measurement to 2.98% in the June 30, 2018 measurement which is reflected as changes of assumptions deferred inflow.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

(continued)

Discount Rate (continued)

Sensitivity of the total OPEB liability to changes in the discount rate: The following presents the Board's proportionate share of the collective total OPEB liability calculated using the discount rate of 2.98%, as well as what the Board's proportionate share of the collective total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
2019			
Discount Rate	1.98%	2.98%	3.98%
Total OPEB Liability	\$ 7,548,689	\$ 6,288,213	\$ 5,310,310
2018			
Discount Rate	2.13%	3.13%	4.13%
Total OPEB Liability	\$ 7,265,179	\$ 6,086,549	\$ 5,127,269

Sensitivity of the total OPEB liability to changes in the health care cost trend rates: The following presents the Board's proportionate share of the collective total OPEB liability as well as what the Board's proportionate share of the collective total OPEB liability would be if it were calculated using the health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates.

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rates</u>	<u>1% Increase</u>
Pre-65	6.0% decreasing to 3.5%	7.0% decreasing to 4.5%	8.0% decreasing to 5.5%
Post-65	4.5% decreasing to 3.5%	5.5% decreasing to 4.5%	6.5% decreasing to 5.5%
2019 Total OPEB Liability	<u>\$5,260,503</u>	<u>\$6,288,213</u>	<u>\$7,633,677</u>
2018 Total OPEB Liability	<u>\$5,078,022</u>	<u>\$6,086,549</u>	<u>\$7,346,595</u>

NOTE 9 – LEASE AND RENTAL COMMITMENTS

The Board enters into operating leases for office space. Lease and rental expenses for the years ended June 30, 2019 and 2018, totaled \$387,285 and \$391,292, respectively. Operating lease commitments for the next fiscal year total \$404,539. The Board has no capital leases.

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2019 and 2018, the Board had accounts payable and accrued expenses as follows:

	<u>2019</u>	<u>2018</u>
Accounts payable	\$ 388,613	\$ 420,057
Accrued wages payable	165,419	155,475
Accrued compensated absences	<u>271,237</u>	<u>249,346</u>
Total payables	\$ 825,269	\$ 824,878

NOTE 11 – UNEARNED REVENUES AND REFUNDS PAYABLE

The Board typically receives payment of surcharge revenues from the healthcare providers in advance of the period of coverage provided. The Board recognizes surcharges as revenues on a pro-rata basis over the period of coverage and benefits provided to the healthcare provider and records an unearned revenue liability for the portion of the surcharges collected or due which have not been earned and recognized as revenue. At June 30, 2019 and 2018, the Board had unearned revenues totaling \$65,946,981 and \$63,935,810, respectively, that represent unearned surcharges.

The Board may also receive cancellation notices or other changes in coverage benefits provided to healthcare providers which require the Board to refund previously collected surcharges. The Board recorded an estimated liability for refunds payable of \$2,643,980 and \$2,552,801 at June 30, 2019 and 2018, respectively.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

There are claims and suits pending against the Board arising from normal business operations, which in the opinion of management and legal counsel, are either without merit or will not have a material effect on the Board's financial position or results of operations. Management of the Louisiana Patient's Compensation Fund establishes estimated liabilities for reported and unreported claim contingencies, which are estimated and recognized as liabilities as described in Note 6. Management believes that the outcome of claims and any related legal proceedings will be provided for by the estimated liabilities and will not have a material adverse effect on the Board's financial position or results of operations.

NOTE 13 – NET POSITION AND RESTRICTION BY ENABLING LEGISLATION

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

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

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 13 – NET POSITION AND RESTRICTION BY ENABLING LEGISLATION (continued)

Net position reported on the Statements of Net Position at June 30, 2019 and 2018, includes \$117,771 and \$106,765, respectively, which is restricted by LA Revised Statute 40:1231.7 as seed money for the inactive Louisiana Residual Malpractice Insurance Authority.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, November 25, 2019 and determined that there were no events that required additional disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION SCHEDULES

SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS

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

SCHEDULE OF CHANGES IN NET OTHER POST-EMPLOYMENT BENEFIT PLAN LIABILITY AND RELATED RATIOS

Information about the employer's total OPEB liability was prepared in compliance with GASB 75.

PER DIEM PAID BOARD MEMBERS

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

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

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

**SCHEDULE OF EMPLOYER'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
JUNE 30, 2019***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.13678%	0.13280%	0.12729%	0.11809%	0.12067%
Employer's proportionate share of the net pension liability	\$9,328,296	\$9,347,214	\$9,995,513	\$8,031,835	\$7,545,427
Employer's covered employee payroll	\$2,596,394	\$2,433,511	\$2,373,072	\$2,287,385	\$2,402,853
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	359%	384%	421%	351%	314%
Plan fiduciary net position as a percentage of the total pension liability	64.3%	62.5%	57.7%	62.7%	65.0%

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

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
AS OF JUNE 30, 2019

<u>Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Employer's Covered Employee Payroll</u>	<u>Contributions as a % of Covered Employee Payroll</u>
2019	\$1,062,966	\$1,062,966	\$ -	\$2,719,274	39.10%
2018	\$972,955	\$972,955	\$ -	\$2,596,394	37.50%
2017	\$862,090	\$862,090	\$ -	\$2,433,511	35.40%
2016	\$875,540	\$875,540	\$ -	\$2,373,072	36.90%
2015	\$840,319	\$840,319	\$ -	\$2,287,385	36.70%

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

**SCHEDULE OF CHANGES IN TOTAL OTHER POST-EMPLOYMENT LIABILITY
AND RELATED RATIOS
AS OF JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 222,293	\$ 240,471
Interest	194,949	173,843
Differences between expected and actual experience	159,725	-
Changes in assumptions	(236,834)	(467,521)
Benefit payments	<u>(138,469)</u>	<u>(115,158)</u>
Net changes	201,664	(168,365)
Total OPEB liability - beginning	6,086,549	4,088,500
Adjustment for GASB 75	<u>-</u>	<u>2,166,414</u>
Total OPEB liability - ending	<u>\$ 6,288,213</u>	<u>\$ 6,086,549</u>
Covered-employee payroll	<u>\$ 2,617,073</u>	<u>\$ 2,229,483</u>
Net OPEB liability as a percentage of covered-employee payroll	240.3%	273.0%

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AS OF JUNE 30, 2019

Schedule of Employer's Share of Net Pension Liability

This schedule reflects the participation of the Louisiana Patient's Compensation Fund's employees in LASERS and its proportionate share of the net pension liability as a percentage of its covered employee payroll, and the plan fiduciary net position as a percentage of the total pension liability.

Schedule of Employer's Contributions

This schedule represents the employer contributions subsequent to the measurement date and recognized as a reduction of the net pension liability in future years.

Changes in Benefit Terms include:

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

Changes of Assumptions:

The following discount rate changes were made to the pension plan:

Year*	Rate	Change
2018	7.650%	-0.050%
2017	7.700%	0.450%
2016	7.250%	-
2015	7.250%	-

The following inflation rate changes were made to the pension plan:

Year*	Rate	Change
2018	2.750%	-
2017	2.750%	-0.250%
2016	3.000%	-

The following changes to projected salary increases were made to the pension plan:

Year*	Range
2018	2.80% to 14.30% for various member types
2017	2.80% to 14.30% for various member types
2016	3.00% to 14.50% for various member types

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

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Amount</u>
Luis M. Alvarado	\$ 2,850
Patrick C. Breaux	2,025
Clark Cosse', III	525
Jennifer F. DeCuir	2,475
Sydney E. Deville	450
Christopher Foret	3,000
Kent Guidry	3,075
Corey Hebert	2,625
Marcus C. Naquin	2,850
Robert E. Ruel, III	3,150
Gregory L. Waddell	<u>3,075</u>
Total	<u>\$26,100</u>

LOUISIANA PATIENT'S COMPENSATION
FUND OVERSIGHT BOARD

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS
TO THE EXECUTIVE DIRECTOR
FOR THE YEAR ENDED JUNE 30, 2019

Executive Director - Kenneth Schnauder

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 183,160
Benefits - insurance	11,108
Benefits - retirement	69,418
Benefits - other	178
Travel	1,145
Conference travel	319
Continuing professional education fees	<u>50</u>
	<u>\$ 265,378</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and other standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Louisiana Patient's Compensation Fund Oversight Board (the Board) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements and have issued our report thereon dated November 25, 2019.

Internal Control Over Financial Reporting

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

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

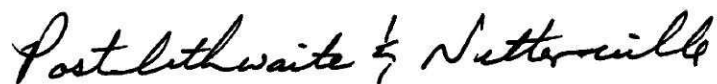
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

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

Purpose of this Report

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



Baton Rouge, Louisiana
November 25, 2019