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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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**ACCIDENT AND HEALTH FUND**

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## **INDEPENDENT AUDITORS' REPORT**

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

### Opinions

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of and for the years ended December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2021 and 2020, and the results of its operations and its cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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 Accounting Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency - Accident and Health Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency - Accident and Health Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisiana Municipal Risk Management Agency - Accident and Health Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency - Accident and Health Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Required Supplementary Information*

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

*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Accident and Health Fund basic financial statements. The schedule of compensation, benefits and other payments to Chief Executive Officer – Act 706 included on page 16, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report on pages 17 and 18, dated June 23, 2022, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

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

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2021 and 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Effective January 1, 2013, the Fund converted its health insurance program from a self-funded program to a fully insured sponsored plan through Blue Cross Blue Shield of Louisiana. The financial statements for the years ended December 31, 2021 and 2020 include only operations for dental coverage which the Fund insures.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2021 by \$1,895,086 compared to the Fund's assets exceeding its liabilities by \$1,942,163 as of December 31, 2020.
- The Fund's assets totaled \$1,905,176 and \$1,952,363 at December 31, 2021 and 2020, respectively, which consisted primarily of cash and cash equivalents.
- The Fund reported gross premiums earned of \$200,655 and \$233,998 during the years ended December 31, 2021 and 2020, respectively.
- The Fund reported a decrease in net position of \$47,077 during the year ended December 31, 2021 compared to an increase in net position of \$1,015 during the year ended December 31, 2020.
- The Fund outsourced the processing of dental claims during the year ended December 31, 2021 and 2020 and paid approximately \$20,660 and \$22,700, respectively, in administrative fees to the third party processor.

**Overview of the Financial Statements**

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

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

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

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

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

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

**Financial Analysis of the Fund**

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

**Condensed Statements of Net Position**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total assets	\$ 1,905,176	\$ 1,952,363
Deferred outflows	-	-
Total liabilities	10,090	10,200
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,895,086</u>	<u>\$ 1,942,163</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets consist primarily of cash and cash equivalents and have remained consistent from 2020 to 2021. Total liabilities decreased approximately 1% over prior year as a result of the decrease in the unpaid claims liability offset by current amounts payable.



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

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

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

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 200,655	\$ 233,998
Operating expenses	<u>248,639</u>	<u>239,840</u>
Operating loss	(47,984)	(5,842)
Non-operating income	<u>907</u>	<u>6,857</u>
Change in net position	<u>\$ (47,077)</u>	<u>\$ 1,015</u>

The Fund experienced an excess of expenses over revenue in the amount of \$47,077 for the current year, resulting primarily from an increase in claims expense as the effects of the pandemic have decreased and participants have returned to claims at more normal levels. During the year ended December 31, 2020, the Fund experienced an excess of revenues over expense of \$1,015 due to additional participants. During the year ended December 31, 2021, the Fund reported premium income of \$200,655 and investment income of \$907. During the year ended December 31, 2021, the Fund reported total expenses of \$248,639 which consisted primarily of claims and administrative expenses. Claims expense incurred during the years ended December 31, 2021 and 2020 represented 85% and 67% of premium income, respectively.

**Requests for Information**

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

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

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents (note 4)	\$ 1,892,986	\$ 1,933,731
Accounts receivable, net	<u>12,190</u>	<u>18,632</u>
Total assets	1,905,176	1,952,363
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 1,905,176</u>	<u>\$ 1,952,363</u>
Liabilities:		
Accounts payable	\$ 2,690	-
Unpaid claims liability (note 3)	<u>7,400</u>	<u>10,200</u>
Total liabilities	10,090	10,200
Deferred inflows	-	-
Net position	<u>1,895,086</u>	<u>1,942,163</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,905,176</u>	<u>\$ 1,952,363</u>

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

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 200,655	\$ 233,998
Total operating revenues	200,655	233,998
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	170,907	155,690
Service agent fees (note 2)	19,071	20,910
Administrative fees (note 2)	34,018	38,835
Professional fees	24,643	24,405
Total operating expenses	248,639	239,840
<b><u>OPERATING LOSS</u></b>	(47,984)	(5,842)
<b><u>NON-OPERATING INCOME</u></b>		
Investment income, net (note 4)	907	6,857
<b><u>CHANGE IN NET POSITION</u></b>	(47,077)	1,015
<b>NET POSITION - BEGINNING OF YEAR</b>	1,942,163	1,941,148
<b>NET POSITION - END OF YEAR</b>	\$ 1,895,086	\$ 1,942,163

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

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash flows from operating activities:		
Operating loss	\$ (47,984)	\$ (5,842)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in accounts receivables	6,442	(2,060)
Change in prepaid expenses	-	1,823
Change in unpaid claims liability	(2,800)	(3,300)
Change in accounts payable	2,690	-
Net cash used in operating activities	(41,652)	(9,379)
Cash flows from investing activities:		
Investment interest received	907	4,162
Net cash provided by investing activities	907	4,162
Net change in cash	(40,745)	(5,217)
Cash, beginning of year	1,933,731	1,938,948
Cash, end of year	\$ 1,892,986	\$ 1,933,731

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

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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

*(a) Background and Financial Statement Presentation*

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

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

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

The Fund pays LMA administrative fees as well as service agent fees to RMI for dental coverage (see note 2). During the year ended December 31, 2021 and 2020, the Fund outsourced the processing of dental claims to an unrelated third party. This service cost \$3.25 per contract, for a total of approximately \$20,660 and \$22,700 for the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021 and 2020, there were 33 participating municipalities in the Fund with a total number of participants of 843 and 813, respectively.

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

**(c) *Net Position***

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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

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

**(h) *Income Taxes***

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

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

	2021	2020
Expenses and current fee structure:		
Service agent fees – RMI (per dental participant - \$3.00 in 2021 and 2020)	\$ <u>19,071</u>	\$ <u>20,910</u>
Administrative fees – LMA (per dental participant - \$2.00 in 2021 and 2020)	\$ <u>12,714</u>	\$ <u>13,940</u>

As of December 31, 2021, included in accounts payable is \$1,076 payable to LMA and \$1,614 payable to RMI. As of December 31, 2020 there were no amounts due to related parties.

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

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

	2021	2020
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 10,200	\$ 13,500
Incurred claims and claims adjustment expense-provision for insured events	170,907	155,690
Less payments – claims and claims adjustment expenses	(173,707)	(158,990)
Unpaid claims and claims adjustment expenses liability, end of year	\$ 7,400	\$ 10,200

**4. CASH AND CASH EQUIVALENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2021 and 2020. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.



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

**NOTES TO FINANCIAL STATEMENTS**

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

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

Net investment income for the years ended December 31, 2021 and 2020 consists of the following:

	2021	2020
Interest income	\$ 907	\$ 6,857

As of December 31, 2021 and 2020, the Fund had the following deposits:

	2021 Estimated Fair Value	2020 Estimated Fair Value
Cash and cash equivalents invested in LAMP	\$ 1,501,582	1,500,890
Cash and cash equivalents	391,404	432,841
TOTAL	\$ 1,892,986	\$ 1,933,731

For reporting purposes, cash and cash equivalents include cash on hand, demand deposits, unrestricted money market accounts, and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

There is a balance of \$1,501,582 included in cash and cash equivalents on the statements of net position that is invested in the Louisiana Asset Management Pool (LAMP) for the year ended December 31, 2021. LAMP is considered to be an external investment pool administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33.2955.

The following facts are relevant for LAMP:

Credit risk: LAMP is rated AAAM by Standard & Poor's.

Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

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

**NOTES TO FINANCIAL STATEMENTS**

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

Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.

Interest rate risk: LAMP is designed to be highly liquid to give its participants immediate access to their account balances. LAMP prepares its own interest rate disclosure using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 70 days and consists of no securities with a maturity in excess of 397 days or 762 days for U.S. Government floating/variable rate investments. The WAM for LAMP's total investments is 45 days as of December 31, 2021.

Foreign currency risk: Not applicable.

LAMP values its investments at fair value based on quoted market values. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares which approximates net asset value (NAV).

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and board of directors. LAMP is not registered with the SEC as an investment company.

An annual audit of LAMP is conducted by an independent certified public accountant. The Legislative Auditor of the State of Louisiana has full access to the records of LAMP.

LAMP issues financial reports which can be obtained by writing: LAMP, Inc., 228 St. Charles Avenue, Suite 1123, New Orleans, LA 70130.

SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND  
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO  
CHIEF EXECUTIVE OFFICER  
YEAR ENDED DECEMBER 31, 2021

Agency Head Name: John Gallagher

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of December 31, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

**Internal Control Over Financial Reporting**

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

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

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

### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**



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

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*A Professional Accounting Corporation*

## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinions**

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund), which comprise the statements of net positions as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Public Liability Fund as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency – Public Liability Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Public Liability Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisiana Municipal Risk Management Agency – Public Liability Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Public Liability Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedule of ten-year claims development on page 20 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.

*Supplementary Information*

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

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

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

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

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2021 and 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2021 by \$18,592,219 compared to \$15,877,310 as of December 31, 2020, which is a 17.1% increase.
- At December 31, 2021, the Fund's assets totaled \$33,325,578, which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government, corporate, and municipal debt obligations and accounts and notes receivable. At December 31, 2020, the Fund's assets totaled \$32,058,416 and consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables.
- The Fund reported earned premiums of \$9,748,473 and \$10,452,596 during the years ended December 31, 2021 and 2020, respectively.
- Net position increased by \$2,714,909 and by \$4,077,996 during the years ended December 31, 2021 and 2020, respectively. The Fund experienced favorable development on estimated claims incurred in prior years during 2021 and 2020.
- At the end of the current fiscal year, the Fund's net position totaled \$18,592,219 or 126.2% of the Fund's liabilities.

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

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

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

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

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

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

**Financial Analysis of the Fund**

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

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

	<u>2021</u>	<u>2020</u>
Total assets	\$ 33,325,578	\$ 32,058,416
Deferred outflows	-	-
Total liabilities	14,733,359	16,181,106
Deferred inflows	-	-
Net position	<u>\$ 18,592,219</u>	<u>\$ 15,877,310</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 4% primarily related to cash flows from operating activities. Total liabilities decreased approximately 9% over the prior year as a result of the decrease in the unpaid claims liability.

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 9,748,473	\$ 10,452,596
Operating expenses	<u>6,597,627</u>	<u>7,590,791</u>
Operating income	3,150,846	2,861,805
Non-operating (loss) income	<u>(435,937)</u>	<u>1,216,191</u>
Change in net position	<u>\$ 2,714,909</u>	<u>\$ 4,077,996</u>

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

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

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

During the year ended December 31, 2021, the Fund reported premium revenues of \$9,748,473 and investment losses of (\$435,937). Investment losses during 2021 compared to investment gains in 2020 were due to unfavorable changes in the values of the Fund's investment portfolio, which is consistent with the overall market for similar investments. The Fund reported total expenses of \$6,597,627 which consisted primarily of claims, reinsurance premiums, and administrative and service agent fees.

During 2020, the Fund reported premium income of \$10,452,596, and total expenses of \$7,590,791, which were similar in make-up to 2021. Expenses decreased from 2020 primarily as a result of lower claims expenses resulting from favorable development of loss reserves for prior policy years. The Fund's net position increased \$2,714,909 during 2021 and \$4,077,996 during 2020. See Statements of Revenues, Expenses and Changes in Net Position on page 8 of this report.

**Requests for Information**

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

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

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2021 AND 2020**

**ASSETS**

	2021	2020
Cash and cash equivalents	\$ 1,307,963	\$ 1,860,113
Investments (note 4)	25,937,718	27,369,949
Accounts receivable, net	339,785	444,020
Reinsurance receivable (note 3)	1,520,613	520,640
Deductibles receivable	186,986	65,018
Due from affiliates - net (note 2)	911,565	1,672,709
Accrued interest receivable	120,948	125,967
Note receivable from affiliate (note 2)	3,000,000	-
 Total assets	 \$ 33,325,578	 \$ 32,058,416
 Deferred outflows	 -	 -

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 12,653,000	\$ 14,086,000
Unearned premiums	2,073,103	2,087,554
Accounts payable	7,256	7,552
Total liabilities	14,733,359	16,181,106
 Deferred inflows	 -	 -
 Net position	 18,592,219	 15,877,310
Total liabilities, deferred inflows, and net position	\$ 33,325,578	\$ 32,058,416

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



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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 9,748,473	\$ 10,452,596
Total operating revenues	<u>9,748,473</u>	<u>10,452,596</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	3,240,238	3,986,451
Reinsurance premiums (note 4)	1,613,697	1,730,253
Administrative fees (note 2)	804,249	862,339
Service agent fees (note 2)	877,363	940,734
Miscellaneous	<u>62,080</u>	<u>71,014</u>
Total operating expenses	<u>6,597,627</u>	<u>7,590,791</u>
<b><u>OPERATING INCOME</u></b>	3,150,846	2,861,805
<b><u>NON-OPERATING (LOSS) INCOME</u></b>		
Investment (loss) income, net (note 4)	<u>(435,937)</u>	<u>1,216,191</u>
<b><u>CHANGE IN NET POSITION</u></b>	<u>2,714,909</u>	<u>4,077,996</u>
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>15,877,310</u>	<u>11,799,314</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 18,592,219</u>	<u>\$ 15,877,310</u>

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

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash flows from operating activities:		
Operating income	\$ 3,150,846	\$ 2,861,805
Adjustments to reconcile operating income to net cash (used in) provided by operations:		
Change in receivables and due from affiliates	(251,543)	733,491
Change in unpaid claims liability	(1,433,000)	(1,118,000)
Change in accrued expenses and unearned premiums	(14,747)	(310,774)
Net cash provided by operating activities	1,451,556	2,166,522
Cash flows from investing activities:		
Purchases of investments	(24,719,040)	(17,373,731)
Proceeds from sales and maturities of investments	25,156,509	12,823,577
Investment in note receivable from affiliate	(3,000,000)	-
Investment income received	558,825	580,180
Net cash used in investing activities	(2,003,706)	(3,969,974)
Net change in cash	(552,150)	(1,803,452)
Cash, beginning of year	1,860,113	3,663,565
Cash, end of year	\$ 1,307,963	\$ 1,860,113

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

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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2021 and 2020, there were 193 and 195 participating municipalities, respectively.

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

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

**(c) *Net Position***

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

**(d) *Investments***

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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

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

**(i) *Excess Reinsurance***

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

**(j) *Income Taxes***

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

*(k) Use of Estimates*

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

*(l) Reclassification*

Certain reclassifications have been made to the 2020 financial statements in order to conform with the current year presentation.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of premiums earned and earned normal premiums (ENP) for the years ended December 31, 2021 and 2020, respectively. The respective percentages of the earned normal premiums and earned standard premiums are as follows:

	2021	2020
Expenses (and current fee structure):		
Administrative fee – LMA 8.25% of earned premium	\$ 804,249	\$ 862,339
Service agent - RMI 9.00% of earned premium	\$ 877,363	\$ 940,734
Reinsurance premium – LMRFA 16.55% of earned premium	\$ 1,613,697	\$ 1,730,253
Reinsurance recoveries from LMRFA	\$ 2,402,603	\$ 890,908
Due (to) from affiliates:		
LMA	\$ 106,011	\$ 47,921
RMI	63,368	(59,095)
LMRFA	742,186	1,683,883
	\$ 911,565	\$ 1,672,709

Also see Note 3 for additional reinsurance receivable balance with LMRFA and estimated future recoverable.

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

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS** (continued)

During the year ended December 31, 2021, the Fund and LMRMA Workers' Compensation Fund entered into an agreement with LMA to loan funds to LMA, a total of \$8 million, for the purpose of the purchase of an office building. The terms of the agreement dated December 20, 2021, state that LMA promises to pay the Fund \$3 million and the LMRMA Workers' Compensation Fund \$5 million in principal with interest thereon at the initial rate per annum equal to the average yield on all of LMRMA investments as of December 31, 2021. Beginning January 1, 2022, LMA pledges the future administrative fees it receives from the Fund and the LMRMA Workers' Compensation Fund as payment for the principal and interest on this note, not to exceed \$1.5 million per year. The note is secured by a mortgage on the property purchased and the note is also to be reduced with net proceeds contingent from the sale of another LMA office building. The terms also state that the interest rate shall be adjusted on January 1 each year beginning on January 1, 2023, based on the average yield on all of LMRMA investments for the then immediately preceding 12 months. Interest and principal are payable in annual installments beginning on the 20<sup>th</sup> of December 2022 and each year thereafter until paid, with the payments varying as interest rate varies. The note receivable balance was \$3,000,000 as of December 31, 2021.

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

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2021 and 2020:

	2021	2020
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 24,024	\$ 25,367
Less: reinsurance recoverables	9,938	10,163
Liability for unpaid losses at beginning of year, net	14,086	15,204
Net incurred related to:		
Current year	4,802	6,031
Prior years	(1,562)	(2,045)
Total incurred	3,240	3,986
Net paid related to:		
Current year	615	851
Prior years	4,058	4,253
Total paid	4,673	5,104
Liability for unpaid losses at end of year, gross	20,667	24,024
Less: reinsurance recoverables (See Note 5)	8,014	9,938
Liability for unpaid losses at end of year, net	\$ 12,653	\$ 14,086

In addition to the estimated unpaid claims recoverable from the Fund's reinsurer (LMRFA), there are \$1,520,613 and \$520,640 of paid claims which are receivable from the reinsurer at December 31, 2021 and 2020, respectively. See Note 5.

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

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

During 2021 and 2020, the Fund experienced favorable development of prior year estimated loss reserves. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2021 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2021, will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for each of December 31, 2021 and 2020, based on the Fund's anticipated payout patterns and discount rate assumption of 2.0%, which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$578,000 and \$632,000 at December 31, 2021 and 2020, respectively.

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2021 and 2020.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. The Fund may also make investments in other bond or debentures provided certain conditions are met regarding credit quality. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire transfer cash as needed from investments to support disbursements.

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2021 and 2020:

<u>Investment Type</u>	<u>2021</u>		<u>2020</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 3,880,781	\$ 3,794,346	\$ 6,813,223	\$ 6,659,889
U.S. Agency debt obligations	10,452,916	10,289,555	17,564,652	16,842,559
U.S. Treasury bonds	2,007,319	2,019,721	2,319,286	2,230,118
Money market funds	158,469	158,469	672,788	672,788
Municipal bonds	5,598,189	5,658,145	-	-
Corporate bonds	3,840,045	3,894,321	-	-
<b>TOTAL</b>	<b>\$ 25,937,718</b>	<b>\$ 25,814,557</b>	<b>\$ 27,369,949</b>	<b>\$ 26,405,354</b>

**Custodial Credit Risk**

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

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

**Credit Risk**

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

Credit ratings as of December 31, 2021 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 4,904,327	\$ 693,862
Corporate bonds	1,575,155	2,264,890
	<u>\$ 6,479,482</u>	<u>\$ 2,958,752</u>

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2021:

INVESTMENT MATURITIES (in years)

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Government agency debt obligations	\$ 10,452,916	\$ 50,206	\$ 6,933,444	\$ 3,469,266	\$ -
U.S. Treasury bonds and notes	2,007,319	-	-	2,007,319	-
Municipal bonds	5,598,189	473,959	5,124,230	-	-
Corporate bonds	3,840,045	-	3,840,045	-	-
Money market funds	158,469	158,469	-	-	-
	22,056,937	<u>\$ 682,634</u>	<u>\$ 15,897,718</u>	<u>\$ 5,476,585</u>	<u>\$ -</u>
U.S. Government mortgage-backed securities	<u>3,880,781</u>				
TOTAL	<u>\$ 25,937,718</u>				

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

**NOTES TO FINANCIAL STATEMENTS**

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

Net investment (loss) income for the years ended December 31, 2021 and 2020 consists of the following:

	2021	2020
Interest income	\$ 404,599	\$ 513,476
Realized gains (losses) – net	899	( 40,734)
Unrealized (losses) gains arising during the year - net	( 841,435)	743,449
	\$( 435,937)	\$ 1,216,191

**Fair Value**

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

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

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

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

The fair value of investment securities was determined as follows at December 31, 2021 and 2020:

December 31, 2021:

	Level 1	Level 2	Estimated Fair Value
U.S. Treasury bonds and notes	\$ 2,007,319	\$ -	\$ 2,007,319
U.S. Government mortgage-backed securities	-	3,880,781	3,880,781
U.S. Agency debt obligations	10,452,916	-	10,452,916
Money market funds	158,469	-	158,469
Municipals bonds	-	5,598,189	5,598,189
Corporate bonds	-	3,840,045	3,840,045
	\$ 12,618,703	\$ 13,319,015	\$ 25,937,718

December 31, 2020:

	Level 1	Level 2	Estimated Fair Value
U.S. Treasury bonds and notes	\$ 2,319,286	\$ -	\$ 2,319,286
U.S. Government mortgage-backed securities	-	6,813,223	6,813,223
U.S. Agency debt obligations	17,564,652	-	17,564,652
Money market funds	672,788	-	672,788
	\$ 20,556,726	\$ 6,813,223	\$ 27,369,949

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

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

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

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

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

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

	<u>2021</u>	<u>2020</u>
Assets	\$ 51,537,975	\$ 55,947,382
Liabilities	<u>37,964,055</u>	<u>37,246,947</u>
Net Position	\$ 13,573,920	\$ 18,700,435

At December 31, 2021 and 2020, the Fund included approximately \$8.0 and \$9.9 million, respectively, as recoverable from LMRFA (included in the liabilities above) which reduced liabilities for anticipated losses (See Note 5). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

**6. CONTINGENCIES**

The Fund is involved in various insurance-related claims and legal actions arising from the normal conduct of business. Management of the Fund establishes estimated liabilities for reported and unreported contingencies. The Fund believes the outcome of these proceedings is mitigated and will not have a material effect on its financial position.

**REQUIRED SUPPLEMENTARY INFORMATION**

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

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

**DECEMBER 31, 2021**  
**(Unaudited)**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers on specific losses) incurred by the Fund as of the end of 2021 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)									
ENP and investment income	\$ 9,313	\$ 11,669	\$ 11,686	\$ 11,384	\$ 11,918	\$ 11,963	\$ 12,343	\$ 10,727	\$ 11,721	\$ 11,988
Operating costs unallocated	3,357	3,604	3,431	3,400	3,519	3,468	3,563	6,432	5,499	3,611
Estimated incurred claims and claims expense, end of policy year	5,012	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374	8,778
Paid (cumulative) as of:										
End of policy year	615	851	642	687	643	719	686	765	838	1,084
One year later	-	1,665	2,088	1,954	1,688	2,293	2,416	2,346	2,669	2,705
Two years later	-	-	2,917	3,178	3,463	4,027	4,383	4,631	4,621	5,189
Three years later	-	-	-	3,927	3,960	5,290	5,899	5,946	6,109	6,326
Four years later	-	-	-	-	4,575	5,781	6,857	6,678	6,398	6,802
Five years later	-	-	-	-	-	6,195	7,139	6,957	6,622	7,124
Six years later	-	-	-	-	-	-	7,328	7,146	6,704	7,267
Seven years later	-	-	-	-	-	-	-	7,180	6,713	7,328
Eight years later	-	-	-	-	-	-	-	-	6,809	7,248
Nine years later	-	-	-	-	-	-	-	-	-	7,268
Estimated incurred claims and claims expense:										
End of policy year	5,012	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374	8,778
One year later	-	4,729	5,691	6,108	5,231	6,914	7,209	7,267	7,619	8,476
Two years later	-	-	5,003	5,430	5,820	6,840	7,444	7,873	7,398	8,324
Three years later	-	-	-	5,223	5,346	7,148	7,780	7,485	7,680	7,982
Four years later	-	-	-	-	5,622	6,794	7,852	7,537	7,269	7,814
Five years later	-	-	-	-	-	6,827	7,638	7,481	7,158	7,671
Six years later	-	-	-	-	-	-	7,594	7,376	7,023	7,601
Seven years later	-	-	-	-	-	-	-	7,359	6,921	7,526
Eight years later	-	-	-	-	-	-	-	-	6,959	7,444
Nine years later	-	-	-	-	-	-	-	-	-	7,466
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(1,540)	(985)	(394)	356	(300)	850	(254)	(415)	(1,312)

See accompanying independent auditors' report.

**OTHER SUPPLEMENTARY INFORMATION**

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**  
**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2021**

**Agency Head Name:** John Gallagher

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

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



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

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statement of net position as of December 31, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinions**

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedule of ten-year claims development information on page 21 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 audits 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.

### *Supplementary Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022



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

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

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2021 and 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2021 by \$24,600,057 compared to \$26,224,923 as of December 31, 2020, which is a 6.2% decrease over the previous year.
- At December 31, 2021, the Fund's assets totaled \$41,723,194 which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations, corporate and municipal bonds, amounts and notes due from affiliates and receivables. At December 31, 2020 the Fund's assets totaled \$42,603,205 and consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables.
- The Fund reported earned premiums of \$6,620,900 and \$6,724,238 during the years ended December 31, 2021 and 2020, respectively, and a decrease in net position of \$1,624,866 and an increase in net position of \$1,652,514 during the years ended December 31, 2021 and 2020, respectively. The Fund experienced unfavorable development on estimated claims incurred in prior years during 2021 and favorable development on estimated claims incurred in prior years in 2020.
- At the end of the current fiscal year, the Fund's net position totaled \$24,600,057 or 144% of the Fund's liabilities. The Fund's premiums earned during 2021 were approximately 27% of its net position at December 31, 2021.

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

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

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

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

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

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

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

**Financial Analysis of the Fund**

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

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

	<u>2021</u>	<u>2020</u>
Total assets	\$ 41,723,194	\$ 42,603,205
Deferred outflows	-	-
Total liabilities	17,123,137	16,378,282
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 24,600,057</u>	<u>\$ 26,224,923</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 2.07% due to normal fluctuations. Total liabilities increased approximately 4.55% mainly due to the increases in the accounts payable and accrued expenses. Net position decreased approximately 6.20% from the prior year.

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

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

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

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 6,620,900	\$ 6,724,238
Operating expenses	<u>7,654,099</u>	<u>7,219,850</u>
Operating loss	(1,033,199)	(495,612)
Non-operating (loss) income	<u>(591,667)</u>	<u>2,148,126</u>
Change in net position	<u>\$ (1,624,866)</u>	<u>\$ 1,652,514</u>

Premium revenues decreased \$103,338 or 1.5% primarily due to reductions in membership and changes in premium rates and covered payroll. During the year ended December 31, 2021, the Fund reported premiums earned income of \$6,620,900 and non-operating investment loss of \$591,667. Investment losses result from unrealized losses in the portfolio and are consistent with unrealized losses seen in the overall market for similar investments. During 2021, the Fund reported total expenses of \$7,654,099, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses increased \$434,249 or 6% compared to the prior year primarily as a result of increased claims and associated Second Injury Fund assessments.

The Fund's net position decreased during 2021 by \$1,624,866 compared to an increase of \$1,652,514 in the prior year. This is primarily a result of investment loss and claims expense as discussed above. See Statements of Revenues, Expenses and Changes in Net Position on page 8 of this report.

**Financial Outlook**

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

**Requests for Information**

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

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

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2021 AND 2020**

**ASSETS**

	2021	2020
Cash and cash equivalents	\$ 2,784,232	\$ 700,994
Investments (note 4)	32,015,449	39,559,381
Accounts receivable, net	822,346	652,456
Reinsurance receivable (note 3)	527,315	1,004,037
Due from affiliates (note 2)	427,356	488,500
Accrued interest receivable	146,496	197,837
Note receivable from affiliate (note 2)	5,000,000	-
 Total assets	 \$ 41,723,194	 \$ 42,603,205
 Deferred outflows	 -	 -

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability (note 3)	\$ 11,586,000	\$ 11,671,000
Unearned premiums	945,053	941,556
Accounts payable and accrued expenses	4,592,084	3,765,726
Total liabilities	17,123,137	16,378,282
 Deferred inflows	 -	 -
 Net position	 24,600,057	 26,224,923
 Total liabilities, deferred inflows, and net position	 \$ 41,723,194	 \$ 42,603,205

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

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 6,620,900	\$ 6,724,238
Total operating revenues	<u>6,620,900</u>	<u>6,724,238</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	3,457,606	3,193,595
Administrative fees (note 2)	827,612	840,530
Service agent fees (note 2)	662,090	672,424
Reinsurance premiums (note 2)	1,804,195	1,832,355
Second Injury Fund assessment	681,518	476,075
Office of Workers' Compensation assessment	152,727	93,590
Other	<u>68,351</u>	<u>111,281</u>
Total operating expenses	<u>7,654,099</u>	<u>7,219,850</u>
<b><u>OPERATING LOSS</u></b>	(1,033,199)	(495,612)
<b><u>NON-OPERATING (LOSS) INCOME</u></b>		
Investment (loss) income, net (note 4)	<u>(591,667)</u>	<u>2,148,126</u>
<b><u>CHANGE IN NET POSITION</u></b>	<u>(1,624,866)</u>	<u>1,652,514</u>
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>26,224,923</u>	<u>24,572,409</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 24,600,057</u>	<u>\$ 26,224,923</u>

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

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash flows from operating activities:		
Operating loss	\$ (1,033,199)	\$ (495,612)
Adjustments to reconcile operating loss to net cash provided by (used in) operations:		
Change in receivables and reinsurance receivable	306,832	(204,676)
Change in unpaid claims liability	(85,000)	(787,000)
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	942,340	(1,187,410)
Net cash provided by (used in) operating activities	130,973	(2,674,698)
Cash flows from investing activities:		
Investment income received	839,796	989,586
Purchases of investments	(32,278,524)	(17,963,739)
Proceeds from sales and maturities of investments	38,390,993	18,984,840
Investment in note receivable from affiliate	(5,000,000)	-
Net cash provided by investing activities	1,952,265	2,010,687
Net change in cash	2,083,238	(664,011)
Cash, beginning of year	700,994	1,365,005
Cash, end of year	\$ 2,784,232	\$ 700,994

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

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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2021 and 2020, there were 151 and 154 participating municipalities, respectively.

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

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

***(c) Net Position***

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

***(d) Investments***

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

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

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

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. At each of December 31, 2021 and 2020, the allowance for doubtful accounts totaled \$100,000.

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

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

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

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

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

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

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

**(i) *Excess Reinsurance and Other Reimbursements***

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

**(j) *Income Taxes***

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

*(l) Use of Estimates*

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

*(m) Reclassification*

Certain amounts in the 2020 financial statements have been reclassified to conform with the current year presentation.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2021 and 2020. The respective percentages of the earned normal premiums are as follows:

	<u>2021</u>	<u>2020</u>
Expenses (and current fee structure):		
Administrative fees – LMA (12.50% of ENP)	\$ <u>827,612</u>	\$ <u>840,530</u>
Service agent fees - RMI (10.00% of ENP)	\$ <u>662,090</u>	\$ <u>672,424</u>
Reinsurance premium - LMRFA (27.25% of ENP)	\$ <u>1,804,195</u>	\$ <u>1,832,355</u>
Reinsurance recoveries from LMRFA	\$ <u>3,417,646</u>	\$ <u>3,034,515</u>
Due to (from) affiliates:		
LMA	(\$ <u>377,343</u> )	(\$ <u>364,425</u> )
RMI	( <u>146,144</u> )	( <u>336,011</u> )
LMRFA	<u>96,131</u>	<u>211,936</u>
	(\$ <u>427,356</u> )	(\$ <u>488,500</u> )

Also see Note 3 for additional reinsurance receivable balances with LMRFA and estimated future recoverables.

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

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS** (continued)

During the year ended December 31, 2021, the Fund and LMRMA Public Liability Fund entered into an agreement with LMA to loan funds to LMA, a total of \$8 million, for the purpose of the purchase of an office building. The terms of the agreement dated December 20, 2021, state that LMA promises to pay the Fund \$5 million and the LMRMA Public Liability Fund \$3 million in principal with interest thereon at the initial rate per annum equal to the average yield on all of LMRMA investments as of December 31, 2021. Beginning January 1, 2022 LMA pledges the future administrative fees it receives from the Fund and the LMRMA Public Liability Fund as payment for the principal and interest on this note not to exceed \$1.5 million per year. The note is secured by a mortgage on the property purchased and the note is also to be reduced with net proceeds from the sale of another LMA office building. The terms also state that the interest rate shall be adjusted on January 1 each year beginning on January 1, 2023, based on the average yield on all of LMRMA investments for the then immediately preceding 12 months. Interest and principal are payable in annual installments beginning on the 20<sup>th</sup> of December 2022 and each year thereafter until paid, with the payments varying as interest rate varies. The note receivable balance was \$5,000,000 as of December 31, 2021.

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

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2021 and 2020:

	2021	2020
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 37,508	\$ 38,859
Less: reinsurance recoverables	25,837	26,401
Liability for unpaid losses at beginning of year, net	11,671	12,458
Net incurred related to:		
Current year	3,423	4,199
Prior years	35	(1,005)
Total incurred	3,458	3,194
Net paid related to:		
Current year	586	1,021
Prior years	2,957	2,960
Total paid	3,543	3,981
Liability for unpaid losses at end of year, gross	40,890	37,508
Less: reinsurance recoverables (note 5)	29,304	25,837
Liability for unpaid losses at end of year, net	\$ 11,586	\$ 11,671

In addition to the estimated unpaid claims receivable from the reinsurers (primarily LMRFA), there are \$527,315 and \$1,004,037 of paid claims which are receivable from the reinsurer at December 31, 2021 and 2020, respectively. See Note 5.

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

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

During 2021 and 2020, the Fund experienced unfavorable and favorable development, respectively, on unpaid claims liabilities established in prior years. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2021, are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2021, will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for the years ended December 31, 2021 and 2020, based on the Fund's anticipated payout patterns and a discount rate assumption of 2.0%, which is intended to approximate the investment earnings over the reserve payout period. The effect of the reserve discounts was \$850,000 and \$848,000 at December 31, 2021 and 2020, respectively.

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

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2021 and 2020.

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2021 and 2020:

<u>Investment Type</u>	2021		2020	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 4,781,600	\$ 4,652,053	\$ 8,041,792	\$ 7,520,678
U.S. Government mortgage-backed securities	5,953,287	5,785,223	10,574,614	10,240,923
U.S. Agency debt obligations	9,967,620	9,738,912	20,243,777	19,139,544
Municipal bonds	7,038,049	7,140,573	-	-
Corporate bonds	4,046,249	4,107,338	-	-
Money market funds	<u>228,644</u>	<u>228,644</u>	<u>699,198</u>	<u>699,198</u>
TOTAL	<u>\$ 32,015,449</u>	<u>\$ 31,652,743</u>	<u>\$ 39,559,381</u>	<u>\$ 37,600,343</u>

**Custodial Credit Risk**

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

Credit Risk

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

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

Credit Ratings as of December 31, 2021 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 6,057,499	\$ 980,550
Corporate bonds	<u>952,029</u>	<u>3,094,220</u>
	<u>\$ 7,009,528</u>	<u>\$ 4,074,770</u>

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

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

**NOTES TO FINANCIAL STATEMENTS**

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

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2021:

<u>INVESTMENT TYPE</u>	INVESTMENT MATURITIES (in years)				
	Estimated Fair Value	Less than 1	1-5	6-10	Greater than 10
U.S. Government agency debt obligations	\$ 10,004,090	\$ 809,632	\$ 5,007,929	\$ 4,186,529	\$ -
U.S. Treasury bonds and notes	4,745,130	252,239	688,223	3,804,668	-
Municipal bonds	7,038,049	299,421	6,738,628	-	-
Corporate bonds	4,046,249	-	4,046,249	-	-
Money market funds	228,644	228,644	-	-	-
	26,062,162	\$ 1,589,936	\$ 16,481,029	\$ 7,991,197	\$ -
U.S. Government mortgage-backed securities	5,953,287				
TOTAL	\$ 32,015,449				

Investment income (loss) for the years ended December 31, 2021 and 2020 consists of the following:

	2021	2020
Interest income	\$ 658,440	\$ 880,082
Realized gains (losses), net	346,224	(104,192)
Unrealized (losses) gains arising during the year	(1,596,331)	1,372,236
	\$ (591,667)	\$ 2,148,126

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

**NOTES TO FINANCIAL STATEMENTS**

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

Fair Value

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

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

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

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

The fair value of investment securities was determined as follows at December 31, 2021 and 2020:

**December 31, 2021:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 4,781,600	\$ -	\$ 4,781,600
U.S. Government mortgage- backed securities	-	5,953,287	5,953,287
U.S. Agency debt obligations	9,967,620	-	9,967,620
Municipal bonds	-	7,038,049	7,038,049
Corporate bonds	-	4,046,249	4,046,249
Money market funds	228,644	-	228,644
	<u>\$ 14,977,864</u>	<u>\$ 17,037,585</u>	<u>\$ 32,015,449</u>

**December 31, 2020:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 8,041,792	\$ -	\$ 8,041,792
U.S. Government mortgage- backed securities	-	10,574,614	10,574,614
U.S. Agency debt obligations	20,243,777	-	20,243,777
Money market funds	699,198	-	699,198
	<u>\$ 28,984,767</u>	<u>\$ 10,574,614</u>	<u>\$ 39,559,381</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

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

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

The following are condensed Statements of Net Position for LMRFA at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Assets	\$ 51,537,975	\$ 55,947,382
Liabilities	<u>37,964,055</u>	<u>37,246,947</u>
Net position	<u>\$ 13,573,920</u>	<u>\$ 18,700,435</u>

At December 31, 2021 and 2020, the Fund included approximately \$29.3 million and \$25.8 million, respectively, as recoverable from LMRFA (included in the liabilities above) which reduces the Fund's liabilities for anticipated losses (note 3). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable. Effective March 5, 2018, LMRFA purchased commercial reinsurance covering exposures incurred related to the Workers' Compensation Fund covering losses in excess of \$400,000 and is limited to 50% of \$1 million per occurrence for the period from March 5, 2018 to December 31, 2018. Effective January 1, 2019, LMRFA purchased similar coverage which covered the period from January 1, 2019 through December 31, 2021 covering losses in excess of \$400,000 and is limited to 50% of \$2 million per occurrence.

**6. CONTINGENCIES**

The Fund is involved in various insurance-related claims and legal actions arising from the normal conduct of business. Management of the Fund establishes estimated liabilities for reported and unreported contingencies. The Fund believes the outcome of these proceedings is mitigated and will not have a material effect on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

**DECEMBER 31, 2021**  
**(Unaudited)**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2021 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	(in thousands)									
ENP and investment income	\$ 6,029	\$ 8,872	\$ 8,904	\$ 9,144	\$ 10,547	\$ 10,847	\$ 8,270	\$ 10,119	\$ 8,956	\$ 11,046
Operating costs, unallocated	4,196	4,026	4,363	4,836	4,740	5,319	4,087	12,669	7,317	5,887
Estimated incurred claims and expense, end of policy year	3,772	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343	6,103
Paid (cumulative) as of:										
End of policy year	586	1,021	832	971	993	903	811	1,198	1,195	1,301
One year later	-	1,957	2,180	2,308	2,415	2,111	1,944	3,071	2,514	3,354
Two years later	-	-	3,086	2,800	3,266	2,770	2,534	3,825	3,464	4,389
Three years later	-	-	-	3,212	3,702	3,199	3,042	4,637	4,069	5,458
Four years later	-	-	-	-	4,047	3,312	3,385	4,855	4,406	6,093
Five years later	-	-	-	-	-	3,504	3,507	5,004	4,656	6,255
Six years later	-	-	-	-	-	-	3,659	5,187	4,719	6,301
Seven years later	-	-	-	-	-	-	-	5,236	4,816	6,384
Eight years later	-	-	-	-	-	-	-	-	4,965	6,477
Nine years later	-	-	-	-	-	-	-	-	-	6,553
Estimated incurred claims and claims expense:										
End of policy year	3,772	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343	6,103
One year later	-	3,902	4,407	4,674	4,705	4,084	4,595	5,979	5,823	7,359
Two years later	-	-	4,895	4,373	4,888	4,494	4,298	6,179	5,847	7,752
Three years later	-	-	-	4,315	4,861	4,247	4,244	6,284	5,896	8,018
Four years later	-	-	-	-	5,110	4,193	4,250	5,882	5,729	8,037
Five years later	-	-	-	-	-	4,188	4,231	5,680	5,464	7,497
Six years later	-	-	-	-	-	-	4,305	5,757	5,387	7,087
Seven years later	-	-	-	-	-	-	-	5,787	5,405	7,077
Eight years later	-	-	-	-	-	-	-	-	5,427	7,156
Nine years later	-	-	-	-	-	-	-	-	-	7,137
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(628)	549	(64)	440	(465)	(802)	(499)	(916)	1,034

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2021**

Agency Head Name: John Gallagher

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of December 31, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

**Internal Control Over Financial Reporting**

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

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

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



### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021**

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinions**

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund), which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Reserve Fund Agency and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Reserve Fund Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisiana Municipal Reserve Fund Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Reserve Fund Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedule of ten-year claims development on page 21 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.

#### *Supplementary Information*

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



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

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 23, 2022, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

## LOUISIANA MUNICIPAL RESERVE FUND AGENCY

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

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2021 and 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

#### **Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2021 by \$13,573,920 compared to \$18,700,435 as of December 31, 2020, which is a 27% decrease from the previous year. This decrease was driven by higher claims experience resulting primarily from unfavorable development of loss reserves on prior policy years as well as lower investment returns.
- At December 31, 2021, the Fund's assets totaled \$51,537,975, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and corporate and municipal bonds. At December 31, 2020, the Fund's assets totaled \$55,947,382 which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations.
- The Fund reported gross earned premiums of \$3,417,892 and \$3,562,608 during the years ended December 31, 2021 and 2020, respectively. The decrease in the earned premium is a result of slightly reduced premium income from both the Workers' Compensation Fund and the Public Liability Fund as a result of their changes in membership compared to 2020.
- The Fund reported investment losses of \$805,389 and investment gains of \$2,934,367 during the years ended December 31, 2021 and 2020, respectively. The decrease in investment income is attributed to fluctuations in the fair value in the investment portfolio based on overall market conditions.
- The Fund had a decrease in net position of \$5,126,515 and an increase in net position of \$2,268,908 during the years ended December 31, 2021 and 2020, respectively. During 2021, the decrease in net position is primarily a result of significant unfavorable claims development in the excess layer of the Workers Comp Fund reserve estimates.

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

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

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

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

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

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

**Financial Analysis of the Fund**

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

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

	<u>2021</u>	<u>2020</u>
Total assets	\$ 51,537,975	\$ 55,947,382
Deferred outflows	-	-
Total liabilities	37,964,055	37,246,947
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 13,573,920</u>	<u>\$ 18,700,435</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 7.9% due to cash flows from operating activities, while liabilities increased by approximately 4.3% due to higher estimates of unpaid claims liability. Net position decreased approximately 31.1% from the prior year.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

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

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

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

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 3,417,892	\$ 3,562,608
Operating expenses	<u>7,739,018</u>	<u>4,228,067</u>
Operating (loss) income	(4,321,126)	(665,459)
Non-operating (loss) income	<u>(805,389)</u>	<u>2,934,367</u>
Change in net position	\$ <u>(5,126,515)</u>	\$ <u>2,268,908</u>

During the year ended December 31, 2021, the Fund reported premium earned of \$3,417,892 and investment losses of \$805,389. Premiums earned decreased slightly due to decreases in the Worker's Compensation Fund and Public Liability Fund underlying membership. The Fund reported total expenses of \$7,739,018 and \$4,228,067 as of December 31, 2021 and 2020, respectively, which consisted primarily of claims expense and reinsurance expense. The 2021 expenses reflect unfavorable loss development emerging during the year compared to 2020 which reflected favorable loss development. The decreases in investment income are attributed to fluctuations in the fair value in the investment portfolio based on overall market conditions. The Fund experienced an operating loss of \$4,321,126 and a decrease in net position of \$5,126,515 for the current year. See the Statements of Revenues, Expenses, and Changes in Net Position on page 8 of this report.

**Requests for Information**

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



**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2021 AND 2020**

**ASSETS**

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 847,398	\$ 712,841
Investments (note 4)	50,197,860	54,987,277
Accrued interest receivable	230,317	247,264
Reinsurance receivable	262,400	-
	<u>51,537,975</u>	<u>55,947,382</u>
Total assets	<u>\$ 51,537,975</u>	<u>\$ 55,947,382</u>
Deferred outflows	-	-

**LIABILITIES AND NET POSITION**

Liabilities:		
Unpaid claims liability (note 3)	\$ 37,318,000	\$ 35,775,000
Due to affiliates (note 2)	646,055	1,471,947
	<u>37,964,055</u>	<u>37,246,947</u>
Total liabilities	37,964,055	37,246,947
Deferred inflows	-	-
Net position	<u>13,573,920</u>	<u>18,700,435</u>
Total liabilities, deferred inflows, and net position	<u>\$ 51,537,975</u>	<u>\$ 55,947,382</u>

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b><u>OPERATING REVENUES</u></b>		
Premiums earned (note 2)	\$ 3,417,892	\$ 3,562,608
Total operating revenues	<u>3,417,892</u>	<u>3,562,608</u>
<b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	6,608,818	2,900,587
Professional fees and other	87,200	77,480
Reinsurance premium (note 5)	<u>1,043,000</u>	<u>1,250,000</u>
Total operating expenses	<u>7,739,018</u>	<u>4,228,067</u>
<b><u>OPERATING LOSS</u></b>	(4,321,126)	(665,459)
<b><u>NON-OPERATING INCOME</u></b>		
Investment (loss) income, net (note 4)	<u>(805,389)</u>	<u>2,934,367</u>
<b><u>CHANGE IN NET POSITION</u></b>	(5,126,515)	2,268,908
<b><u>NET POSITION - BEGINNING OF YEAR</u></b>	<u>18,700,435</u>	<u>16,431,527</u>
<b><u>NET POSITION - END OF YEAR</u></b>	<u>\$ 13,573,920</u>	<u>\$ 18,700,435</u>

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (4,321,126)	\$ (665,459)
Adjustments to reconcile operating income (loss) to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	(1,071,345)	(112,521)
Change in unpaid claims liability	1,543,000	(822,000)
Change in accrued expenses	-	(10,565)
Net cash used in operating activities	<u>(3,849,471)</u>	<u>(1,610,545)</u>
Cash flows from investing activities:		
Purchases of investments	(36,562,896)	(21,896,123)
Proceeds from sales or maturities of investments	39,386,052	21,591,709
Investment income received	<u>1,160,872</u>	<u>1,303,299</u>
Net cash provided by investing activities	<u>3,984,028</u>	<u>998,885</u>
Net change in cash	134,557	(611,660)
Cash, beginning of year	<u>712,841</u>	<u>1,324,501</u>
Cash, end of year	<u>\$ 847,398</u>	<u>\$ 712,841</u>

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

# LOUISIANA MUNICIPAL RESERVE FUND AGENCY

## NOTES TO FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

## LOUISIANA MUNICIPAL RESERVE FUND AGENCY

### NOTES TO FINANCIAL STATEMENTS

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

*(c) Net Position*

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

*(d) Investments*

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

*(e) Premium Income*

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

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

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

*(g) Unpaid Claims Liability*

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

***(h) Excess Reinsurance***

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events on certain Worker's Compensation claims. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

***(i) Statements of Cash Flows***

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

***(j) Income Taxes***

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

***(k) Use of Estimates***

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

***(l) Reclassifications***

Certain accounts have been reclassified to conform to the current year presentation. These reclassifications have had no effect on the change in net position for 2020.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

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

	<u>2021</u>		<u>2020</u>	
	<u>Fee Basis</u>	<u>Amount</u>	<u>Fee Basis</u>	<u>Amount</u>
Premium income:				
LMRMA:				
Public Liability	16.55% ESP	\$ 1,613,697	16.55% ESP	\$ 1,730,253
Workers' Compensation	27.25% ENP	<u>1,804,195</u>	27.25% ENP	<u>1,832,355</u>
		<u>\$ 3,417,892</u>		<u>\$ 3,562,608</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		(\$ 742,186)		(\$ 1,683,883)
Workers' Compensation		<u>96,131</u>		<u>211,936</u>
		<u>(\$ 646,055)</u>		<u>(\$ 1,471,947)</u>

As reflected in the table above, the Fund receives all of its revenue from LMRMA affiliated entities which are insured by the Fund. All of the management and administrative activities of the Fund are performed by affiliates and no separate fees are paid for these services. The Fund is dependent on these services from affiliates.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 37,012	\$ 37,418
Less: Reinsurance recoverables	<u>1,237</u>	<u>821</u>
Liability for unpaid losses at beginning of year, net	<u>35,775</u>	<u>36,597</u>
Net incurred related to:		
Current year	3,273	4,162
Prior years	<u>3,336</u>	<u>(1,261)</u>
Total incurred	<u>6,609</u>	<u>2,901</u>
Net paid related to:		
Current year	-	61
Prior years	<u>5,066</u>	<u>3,662</u>
Total paid	<u>5,066</u>	<u>3,723</u>
Liability for unpaid losses at end of year, gross	39,070	37,012
Less: Reinsurance recoverables	<u>1,752</u>	<u>1,237</u>
Liability for unpaid losses at end of year, net	<u>\$ 37,318</u>	<u>\$ 35,775</u>

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

	<u>2021</u>	<u>2020</u>
	(Amounts in thousands)	
Workers' Compensation	\$ 29,304	\$ 25,837
Public Liability	<u>8,014</u>	<u>9,938</u>
	<u>\$ 37,318</u>	<u>\$ 35,775</u>

During 2021, the Fund experienced unfavorable development related to the assumed workers' compensation unpaid claims liabilities resulting from actual reported losses being higher than expected at the excess layer offset by slight favorable development in the assumed public liability estimation. During 2020, the Fund experienced favorable development related to the assumed public liability unpaid claims liabilities resulting from actual reported losses being lower than expected at the primary layer offset by slight unfavorable development in the assumed workers' compensation estimation. The liability for unpaid losses has been reduced in 2021 and 2020 for estimated amounts recoverable from a commercial reinsurance policy on Workers' Compensation (see note 5.) In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2021 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2021 will not vary from the above estimates, and such differences could be significant.



**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

The Fund's claims payable have been discounted for December 31, 2021 and 2020, based on the Fund's anticipated payout patterns and discount rate assumptions of 2.0%, which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$7,391,000 and \$6,635,000 at December 31, 2021 and 2020, respectively.

**4. DEPOSITS AND INVESTMENTS**

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2021 and 2020.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. The Fund may also make investments in other bonds or debentures provided certain conditions are met regarding credit quality. Included in investments are certificates of deposit, money market accounts, and repurchase agreements.

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2021 and 2020:

<u>Investment Type</u>	<u>2021</u>		<u>2020</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 7,736,909	\$ 7,515,881	\$ 13,644,382	\$ 13,242,452
U.S. Government agency debt obligations	19,636,878	19,133,261	31,979,290	30,233,989
U.S. Treasury bonds and notes	6,614,878	6,405,160	7,793,372	7,209,030
Municipal bonds	10,191,542	10,297,531	-	-
Corporate bonds	5,812,842	5,898,290	-	-
Money market funds	<u>204,811</u>	<u>204,811</u>	<u>1,570,233</u>	<u>1,570,233</u>
TOTAL	<u>\$ 50,197,860</u>	<u>\$ 49,454,934</u>	<u>\$ 54,987,277</u>	<u>\$ 52,255,704</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

Custodial Credit Risk

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

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

Credit Risk

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

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

Credit ratings as of December 31, 2021 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 6,916,217	\$ 3,275,325
Corporate bonds	<u>1,480,934</u>	<u>4,331,908</u>
	\$ 8,397,151	\$ 7,607,233

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. This risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2021:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Government agency debt obligations	\$ 19,636,878	555,401	10,843,715	8,237,762	-
U.S. Treasury bonds and notes	6,614,878	95,634	3,936,734	2,582,510	-
Municipal bonds	10,191,542	733,413	9,458,129	-	-
Corporate bonds	5,812,842	-	5,812,842	-	-
Money market funds	<u>204,811</u>	<u>204,811</u>	<u>-</u>	<u>-</u>	<u>-</u>
	\$ 42,460,951	<u>\$ 1,589,259</u>	<u>\$ 30,051,420</u>	<u>\$10,820,272</u>	<u>\$ -</u>
U.S. Government Mortgage- backed Securities	<u>7,736,909</u> <u>\$50,197,860</u>				
Total	<u>1,550</u>				

Net investment (loss) income for the years ended December 31, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Interest income	\$ 895,850	\$ 1,212,560
Net realized gains (losses) – net	287,409	( 142,426)
Unrealized (losses) gains arising during the year	<u>( 1,988,648)</u>	<u>1,864,233</u>
	<u>(\$ 805,389)</u>	<u>\$ 2,934,367</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

Fair Value

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

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

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

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

The fair value of investment securities was determined as follows at December 31, 2021 and 2020:

December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 6,614,878	\$ -	\$ 6,614,878
U.S. Government mortgage- backed securities	-	7,736,909	7,736,909
U.S. Agency debt obligations	19,636,878	-	19,636,878
Municipals bonds	-	10,191,542	10,191,542
Corporate bonds	-	5,812,842	5,812,842
Treasury bills/money market funds	204,811	-	204,811
	<u>\$ 26,456,567</u>	<u>\$ 23,741,293</u>	<u>\$ 50,197,860</u>

December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 7,793,372	\$ -	\$ 7,793,372
U.S. Government mortgage- backed securities	-	13,644,382	13,644,382
U.S. Agency debt obligations	31,979,290	-	31,979,290
Treasury bills/money market funds	1,570,233	-	1,570,233
	<u>\$ 41,342,895</u>	<u>\$ 13,644,382</u>	<u>\$ 54,987,277</u>

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE**

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

*Ceded:*

LMRFA obtained commercial reinsurance to cover a portion of workers' compensation medical losses for the periods January 1, 1995, through December 31, 2001, which were subsequently commuted.

Effective March 5, 2018, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering each loss occurrence in excess of \$400,000 and is limited to 50% of \$1 million per occurrence and total aggregate limit of \$4.05 million for all losses for the period.

Effective January 1, 2019, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering each loss occurrence in excess of \$400,000 and is limited to 50% of \$2 million per occurrence and total aggregate limits of \$5.4 million for all losses for the period.

Effective January 1, 2020, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering each loss occurrence in excess of \$400,000 and is limited to 50% of \$2 million per occurrence and total aggregate limits of \$5.6 million for all losses for the period. Reinsurance premium for this policy totaled \$1,250,000 for the period of coverage.

Effective January 1, 2021, the Fund purchased commercial reinsurance covering exposures related to the Workers' Compensation Fund covering each loss occurrence in excess of \$400,000 and is limited to 50% of \$2 million per occurrence and total aggregate limits of \$5.8 million for all losses for the period. Reinsurance premium for this policy totaled \$1,168,000 for the period of coverage.

At December 31, 2021, claims reimbursement receivable of \$262,400 has been recognized for amounts related to reinsurance policies. As of December 31, 2021 and 2020, unpaid claims liabilities have been reduced by estimated reinsurance recoverables as described in Note 3.

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**5. REINSURANCE POLICY COVERAGE** (continued)

*Assumed:*

LMRFA provided excess reinsurance to LMRMA's Workers' Compensation and Public Liability Funds. The risks assumed have been periodically adjusted by the parties and included the following coverage limits for the years ended December 31, 2021 and 2020.

Workers' Compensation Fund

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

Public Liability Fund

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

REQUIRED SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**

**DECEMBER 31, 2021**

*(Unaudited)*

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense incurred by the Fund as of the end of 2021 and as of the end of each of the last nine years.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)									
ENP and investment income	\$ 2,613	6,497	6,581	4,697	\$ 5,216	5,311	\$ 9,962	\$ 9,910	\$ 6,948	\$ 7,590
Operating costs, unallocated	1,130	1,327	1,235	1,429	82	86	66	87	162	127
Estimated incurred claims and expense, end of policy year	3,842	4,822	4,261	4,642	6,012	7,038	6,695	9,072	7,037	9,594
Paid (cumulative) as of:										
End of policy year	-	61	-	81	334	-	-	-	1	1,087
One year later	-	1,084	136	505	783	138	291	228	189	1,160
Two years later	-	-	175	722	1,737	1,418	859	830	262	2,268
Three years later	-	-	-	1,011	1,816	1,884	1,710	1,440	641	2,677
Four years later	-	-	-	-	480	2,247	2,304	1,753	716	2,795
Five years later	-	-	-	-	-	437	2,529	2,000	808	3,481
Six years later	-	-	-	-	-	-	1,206	2,308	925	3,914
Seven years later	-	-	-	-	-	-	-	576	1,082	4,220
Eight years later	-	-	-	-	-	-	-	-	299	4,522
Nine years later	-	-	-	-	-	-	-	-	-	678
Estimated incurred claims and claims expense:										
End of policy year	3,842	4,822	4,261	4,642	6,012	7,038	6,695	9,072	7,037	9,594
One year later	-	4,210	3,581	5,111	5,018	6,454	6,136	6,747	6,774	11,680
Two years later	-	-	3,498	4,491	5,449	5,080	5,269	6,113	4,606	11,462
Three years later	-	-	-	4,757	4,769	4,802	6,352	4,816	4,077	9,213
Four years later	-	-	-	-	5,730	4,831	5,803	4,443	2,947	8,395
Five years later	-	-	-	-	-	4,688	5,526	4,349	2,972	7,019
Six years later	-	-	-	-	-	-	6,523	4,216	2,870	7,142
Seven years later	-	-	-	-	-	-	-	4,907	2,824	6,860
Eight years later	-	-	-	-	-	-	-	-	3,061	7,313
Nine years later	-	-	-	-	-	-	-	-	-	7,685
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(612)	(763)	115	(282)	(2,350)	(172)	(4,165)	(3,976)	(1,909)

See accompanying independent auditors' report.



OTHER SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2021**

**Agency Head Name:** John Gallagher

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund), which comprise the statement of net position as of December 31, 2021, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

Internal Control Over Financial Reporting

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

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

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



### Compliance and Other Matters

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

### Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

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

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Opinions**

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of as of December 31, 2021 and 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Association - Unemployment Compensation Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Association - Unemployment Compensation Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.





### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Louisiana Municipal Association - Unemployment Compensation Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Association - Unemployment Compensation Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the 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.



Supplementary Information

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

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

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 23, 2022, on our consideration of the Fund’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters which appears on pages 18 and 19. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

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

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2021 and 2020. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

**Financial Highlights**

- The assets of the Fund exceeded its liabilities at December 31, 2021 by \$5,035,000 compared to \$4,938,461 at December 31, 2020, which is approximately a 1.95% increase from the previous year.
- At December 31, 2021 and 2020, the Fund's assets totaled \$5,466,392 and \$5,293,009, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$387,603 and \$372,633 during the years ended December 31, 2021 and 2020, respectively. Change in net position was an increase of \$96,539 in 2021 and \$403,524 in 2020.
- Investment loss was \$68,990 in 2021 compared to the investment gain of \$253,473 during 2020. The investment loss in 2021 was attributed primarily to fluctuations in market values of the investment portfolio.

**Overview of the Financial Statements**

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

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

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

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

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

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

**Financial Analysis of the Fund**

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

**Condensed Statements of Net Position**

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Total assets	\$ 5,466,392	\$ 5,293,009
Total liabilities	<u>431,392</u>	<u>354,548</u>
Net position	<u>\$ 5,035,000</u>	<u>\$ 4,938,461</u>

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

**LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND**

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

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

**Condensed Statements of Revenues and Expenses and Changes in Net Position  
for the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 387,603	\$ 372,633
Operating expenses	<u>222,074</u>	<u>222,582</u>
Operating gain	165,529	150,051
Non-operating (loss) income	<u>(68,990)</u>	<u>253,473</u>
Change in net position	\$ <u>96,539</u>	\$ <u>403,524</u>

As a result of the Public Health Emergency of International Concern of the outbreak of the novel coronavirus (COVID-19), overall unemployment rates have varied greatly throughout 2021 and 2020. Various Federal and State laws, orders, and regulations were implemented in response to the significant impacts to the national economy and resulting unemployment levels. Management is continuing to monitor the overall impact on the Fund's financial position and unemployment benefits which may become due to impacted participants. The extent to which the COVID-19 pandemic may impact the Fund's financial condition or results of operations cannot be reasonably estimated at this time.

Operating revenues increased by approximately 4.02% from the year ended December 31, 2020 to 2021. Claims expense decreased approximately 5.72% during the year ended December 31, 2021 as a result of a decrease in unemployment claims incurred. As a result of the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law on March 27, 2020 whereby federal unemployment benefits were expanded in order to provide unemployment benefits for workers impacted by the pandemic. These CARES Act benefits exceed the benefits which are typically available to these claimants. Louisiana ended COVID-related unemployment benefits on July 31, 2021. Decreases in unemployment claims incurred by the Fund are as a result of claims considered to be COVID – 19 Funds related claims which are covered by expanded federal unemployment benefits and not the Fund. Due to the slight increase in revenues and decrease in expenses, the Fund's net position for 2021 increased by \$96,539.

**Requests for Information**

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

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

**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2021 AND 2020**

	2021	2020
Assets		
Cash and cash equivalents (note 2)	\$ 516,473	\$ 282,056
Investments (note 2)	4,822,131	4,887,177
Accounts receivable	109,375	100,944
Accrued interest receivable	18,413	22,832
Total Assets	\$ 5,466,392	\$ 5,293,009
Deferred outflows	-	-
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	81,392	4,548
Total Liabilities	431,392	354,548
Deferred inflows	-	-
Net position	5,035,000	4,938,461
Total liabilities, deferred inflows, and net position	\$ 5,466,392	\$ 5,293,009

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

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
<b><u>OPERATING REVENUES</u></b>		
Premiums earned	\$ 387,603	\$ 372,633
Total operating revenues	387,603	372,633
 <b><u>OPERATING EXPENSES</u></b>		
Claims expense (note 3)	133,663	141,766
Service agent fees	63,140	51,793
Miscellaneous	25,271	29,023
Total operating expenses	222,074	222,582
 <b><u>OPERATING INCOME</u></b>	165,529	150,051
 <b><u>NON-OPERATING (LOSS) INCOME</u></b>		
Investment (loss) income - net	(68,990)	253,473
 <b><u>CHANGE IN NET POSITION</u></b>	96,539	403,524
 <b>NET POSITION - BEGINNING OF YEAR</b>	4,938,461	4,534,937
 <b>NET POSITION - END OF YEAR</b>	\$ 5,035,000	\$ 4,938,461

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

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Operating income	\$ 165,529	\$ 150,051
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(8,431)	(4,218)
Accrued expenses and unpaid claims liability	<u>76,844</u>	<u>(43,897)</u>
Net cash provided by operating activities	<u>233,942</u>	<u>101,936</u>
Cash flows from investing activities:		
Purchases of investments	(3,617,526)	(1,883,693)
Proceeds from sale or maturity of investments	3,508,995	1,765,558
Investment income received	<u>109,006</u>	<u>119,530</u>
Net cash provided by investing activities	<u>475</u>	<u>1,395</u>
Net change in cash	234,417	103,331
Cash, beginning of year	<u>282,056</u>	<u>178,725</u>
Cash, end of year	<u>\$ 516,473</u>	<u>\$ 282,056</u>

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



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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

As of December 31, 2021, there were approximately 6,000 participants and 143 participating municipalities. As of December 31, 2020, there were approximately 5,900 participants and 143 participating municipalities.

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

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

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

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

**(c) *Net Position***

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

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

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

**(e) *Investments***

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

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

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

**(g) *Income Taxes***

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

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

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**2. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2021 and 2020.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. The Fund may also make investments in other bonds or debentures provided certain conditions are met regarding credit quality. Included in investments are money market accounts and repurchase agreements.

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

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

<u>Investment Type</u>	<u>2021</u>		<u>2020</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 911,575	\$ 906,891	\$ 885,594	\$ 846,860
U.S. Government mortgage-backed securities	656,375	639,288	1,129,592	1,095,380
U.S. Agency debt obligations	1,836,165	1,780,697	2,795,315	2,637,311
Money market funds	64,822	64,822	76,676	76,676
Corporate bonds	513,715	521,463	-	-
Municipal bonds	<u>839,479</u>	<u>846,145</u>	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 4,822,131</u>	<u>\$ 4,759,306</u>	<u>\$ 4,887,177</u>	<u>\$ 4,656,227</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Custodial Credit Risk**

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

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

**Credit Risk**

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

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

Credit ratings as of December 31, 2021 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 607,473	\$ 232,005
Corporate bonds	126,937	386,778
	<u>\$ 734,410</u>	<u>\$ 618,783</u>

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Interest Rate Risk**

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2021:

	<u>Estimated</u>		<u>Less</u>		<u>5 – 10 Years</u>		<u>Over</u>
	<u>Fair Value</u>		<u>Than 1 Year</u>	<u>1 – 5 Years</u>	<u>5 – 10 Years</u>		<u>10 Years</u>
U.S. Treasury bonds and notes	\$ 911,575	\$	25,177	\$ 397,366	\$ 489,032	\$	-
U.S. Agency debt obligations	1,836,165		-	1,168,084	668,081		-
Money market funds	64,822		64,822	-	-		-
Municipal bonds	839,479		304,354	535,125	-		-
Corporate bonds	<u>513,715</u>		<u>-</u>	<u>513,715</u>	<u>-</u>		<u>-</u>
	<u>4,165,756</u>	\$	<u>394,353</u>	<u>\$ 2,614,290</u>	<u>\$ 1,157,113</u>	\$	<u>-</u>

U.S. Government mortgage-backed securities 656,375

TOTAL \$ 4,822,131

Investment (loss) income for the years ended December 31, 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Interest income	\$ 82,217	\$ 105,753
Net realized gain (loss)	16,918	(10,383)
Unrealized net (loss) gain arising during the year	<u>(168,125)</u>	<u>158,103</u>
	<u>\$ (68,990)</u>	<u>\$ 253,473</u>

**Fair Value**

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

**Fair Value** (continued)

The fair value of investment securities was determined as follows at December 31, 2021 and 2020:

**December 31, 2021:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 911,575	\$ -	\$ 911,575
U.S. Government mortgage- backed securities	-	656,375	656,375
U.S. Agency debt obligations	1,836,165	-	1,836,165
Money market funds	64,822	-	64,822
Corporate bonds	-	513,715	513,715
Municipal bonds	-	839,479	839,479
	<u>\$ 2,812,562</u>	<u>\$ 2,009,569</u>	<u>\$ 4,822,131</u>

**December 31, 2020:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 885,594	\$ -	\$ 885,594
U.S. Government mortgage- backed securities	-	1,129,592	1,129,592
U.S. Agency debt obligations	2,795,315	-	2,795,315
Money market funds	76,676	-	76,676
	<u>\$ 3,757,585</u>	<u>\$ 1,129,592</u>	<u>\$ 4,887,177</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	<u>\$ 350</u>	<u>\$ 350</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>134</u>	<u>142</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	30	45
Claims and claim adjustment expenses attributable to insured events of prior years	<u>104</u>	<u>97</u>
Total payments	<u>134</u>	<u>142</u>
Total unpaid claims and claims adjustment expenses liability at end of year	<u>\$ 350</u>	<u>\$ 350</u>

SUPPLEMENTARY INFORMATION



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

**SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO**  
**CHIEF EXECUTIVE OFFICER**  
**YEAR ENDED DECEMBER 31, 2021**

Agency Head Name: John Gallagher

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2021, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 23, 2022

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

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

**FOR THE YEAR ENDED DECEMBER 31, 2021**

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Independent Accountant’s Report  
On Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor’s (LLA’s) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2021 through December 31, 2021. The Entity’s management is responsible for those C/C areas identified in the SAUPs. The LMA Insurance Risk Pools consist of the following funds and will collectively be referred to as the Entity or the Fund’s:

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

The Entity has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA’s SAUPs for the fiscal period January 1, 2021 through December 31, 2021. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “no exception noted” or for step 25 “we performed the procedure and discussed the results with management”. If not, then a description of the exception ensues.

***A - Written Policies and Procedures***

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1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):
  - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

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

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

*Not applicable, see above.*

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

*Not applicable, see above.*

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

*Not applicable, see above.*

- e) **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.

*Not applicable, see above.*

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

*Not applicable, see above.*

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

*Not applicable, see above.*

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

*Not applicable, see above.*

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.

*Not applicable, see above.*

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

*Not applicable, see above.*

- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

*Not applicable, see above.*

- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

*Not applicable, see above.*

#### ***B - Board or Finance Committee***

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2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:
  - a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

*No exception noted.*

- b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

*No exception noted.*

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

*No exception noted.*

### ***C - Bank Reconciliations***

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

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

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

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

*No exceptions noted.*

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

*No exceptions noted.*

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

*No exceptions noted.*

### ***D - Collections (excluding electronic funds transfers)***

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

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



*From the listing provided, we selected all 5 deposit sites and performed the procedures below.*

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

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

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

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

*Not applicable.*

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

*No exceptions noted.*

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

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

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

*No exceptions noted.*

6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.

*The Entity did not provide documentation the employees who have access to cash are bonded and/or covered under the Entity's insurance policy.*

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

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

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

*The Entity does not maintain sequentially pre-numbered receipts.*

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

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

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

*No exceptions noted.*

- d) Observe the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).

*No exceptions noted.*

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

*No exceptions noted.*

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

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

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

*From the listing provided, we selected all 5 locations and performed the procedures below.*

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

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

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

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

*No exceptions noted.*

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

*No exceptions noted.*

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

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

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

*No exceptions noted.*

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

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

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

- a) Observe that the disbursement matched the related original itemized invoice, and that supporting documentation indicates that deliverables included on the invoice were received by the entity.

*No exceptions noted.*

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

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

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

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

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

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

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

*Not applicable. See #1 above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

## ***H - Contracts***

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

*An active vendor list for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we selected the only contract listed and performed the procedures below.*

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

*For the one contract select for our procedures, none were subject to Louisiana Public Bid Law.*

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

*No exceptions noted.*

- c) If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).

*No exceptions noted.*

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

*We randomly selected 1 payment for the contract selected in procedure #15 and performed the specified procedures. No exceptions noted.*

## ***I - Payroll and Personnel***

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

*Not applicable. See #1 above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

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

*Not applicable as noted above.*

- d) Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.

*Not applicable as noted above.*

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

*Not applicable as noted above.*

19. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

*Not applicable as noted above.*

### ***J - Ethics***

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

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

*Not applicable. See #1 above.*

- b) Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity’s ethics policy during the fiscal period, as applicable.

*Not applicable as noted above.*

### ***K - Debt Service***

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

*Not applicable.*

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

*Not applicable.*

### ***L - Fraud Notice***

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

*The Entity had no allegations during the reporting period.*

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

*No exceptions noted.*



***M - Information Technology Disaster Recovery/Business Continuity***

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25. Perform the following procedures, **verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”**

- a) Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.

*We performed the procedure and discussed the results with management.*

- b) Obtain and inspect the entity’s most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

*We performed the procedure and no exceptions noted.*

- c) Obtain a listing of the entity’s computers currently in use and their related locations, and management’s representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

*We performed the procedure and no exceptions noted.*

***N - Sexual Harassment***

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26. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.

*Not applicable. See #1 above.*

27. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity’s premises if the entity does not have a website).

*Not applicable as noted above.*

28. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe it includes the applicable requirements of R.S. 42:344:
- a) Number and percentage of public servants in the agency who have completed the training requirements;  
*Not applicable as noted above.*
  - b) Number of sexual harassment complaints received by the agency;  
*Not applicable as noted above.*
  - c) Number of complaints which resulted in a finding that sexual harassment occurred;  
*Not applicable as noted above.*
  - d) Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and  
*Not applicable as noted above.*
  - e) Amount of time it took to resolve each complaint.  
*Not applicable as noted above.*

We were engaged by The Entity to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of The Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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

*Postlethwaite & Netterville*

Baton Rouge, LA  
June 23, 2022

# LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

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

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

June 21, 2022

## RESPONSE TO EXCEPTIONS IN 2021 STATEWIDE AUP REPORT

We agree with the exceptions noted in the AUP Report.

We reconcile the bank account monthly so sequentially pre-numbered receipts are not necessary.

Adequate controls exist over payment processing to ensure vendors are paid accurately.

Sincerely,



George Murphy  
LMRMA CFO

*Administered by the Louisiana Municipal Association*

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