
LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund), as of and for the years ended December 31, 2020 and 2019, the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

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

Other Supplemental 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 15, 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 16 and 17, dated June 18, 2021, 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 18, 2021

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, 2020 and 2019. 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, 2020 and 2019 include only operations for dental coverage which the Fund insures.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2020 by \$1,942,163 compared to the Fund's assets exceeding its liabilities by \$1,941,148 as of December 31, 2019.
- The Fund's assets totaled \$1,952,363 and \$1,957,343 at December 31, 2020 and 2019, respectively, which consisted primarily of cash and cash equivalents.
- The Fund reported gross premiums earned of \$233,998 and \$207,435 during the years ended December 31, 2020 and 2019, respectively.
- The Fund reported an increase in net position of \$1,015 during the year ended December 31, 2020 compared to a decrease in net position of \$25,670 during the year ended December 31, 2019.
- The Fund outsourced the processing of dental claims during the year ended December 31, 2020 and 2019 and paid approximately \$22,700 and \$21,500 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, 2020</u>	<u>December 31, 2019</u>
Total assets	\$ 1,952,363	\$ 1,957,343
Deferred outflows	-	-
Total liabilities	10,200	16,195
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,942,163</u>	<u>\$ 1,941,148</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 remain consistent from 2019 to 2020. Total liabilities decreased approximately 37% over prior year as a result of the decrease in the unpaid claims liability.

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>2020</u>	<u>2019</u>
Operating revenues	\$ 233,998	\$ 207,435
Operating expenses	<u>239,840</u>	<u>248,238</u>
Operating loss	(5,842)	(40,803)
Non-operating income	<u>6,857</u>	<u>15,133</u>
Change in net position	<u>\$ 1,015</u>	<u>\$ (25,670)</u>

The Fund experienced an excess of revenue over expense in the amount of \$1,015 for the current year resulting primarily from an increase in operating revenues due to additional participants. During the year ended December 31, 2019, the Fund experienced an excess of expenses over revenues of \$25,670 due to a loss in business. During the year ended December 31, 2020, the Fund reported premium income of \$233,998 and investment income of \$6,857. During the year ended December 31, 2020, the Fund reported total expenses of \$239,840 which consisted primarily of claims and administrative expenses. Claims expense incurred during the years ended December 31, 2020 and 2019 represented 67% and 81% 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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents (note 4)	\$ 1,933,731	\$ 1,938,948
Prepays	-	1,823
Accounts receivable, net	<u>18,632</u>	<u>16,572</u>
Total assets	1,952,363	1,957,343
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 1,952,363</u>	<u>\$ 1,957,343</u>
Liabilities:		
Unpaid claims liability (note 3)	\$ 10,200	\$ 13,500
Accrued expenses	<u>-</u>	<u>2,695</u>
Total liabilities	10,200	16,195
Deferred inflows	-	-
Net position	<u>1,942,163</u>	<u>1,941,148</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,952,363</u>	<u>\$ 1,957,343</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, 2020 AND 2019

	2020	2019
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 233,998	\$ 207,435
Total operating revenues	233,998	207,435
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	155,690	169,015
Service agent fees (note 2)	20,910	19,740
Administrative fees (note 2)	38,835	34,672
Professional fees	24,405	24,811
Total operating expenses	239,840	248,238
<u>OPERATING LOSS</u>	(5,842)	(40,803)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	6,857	15,133
<u>CHANGE IN NET POSITION</u>	1,015	(25,670)
NET POSITION - BEGINNING OF YEAR	1,941,148	1,966,818
NET POSITION - END OF YEAR	\$ 1,942,163	\$ 1,941,148

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Operating loss	\$ (5,842)	\$ (40,803)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in accounts receivables	(2,060)	(16,056)
Change in prepaid expenses	1,823	(1,823)
Change in unpaid claims liability	<u>(3,300)</u>	<u>(10,600)</u>
Net cash used in operating activities	<u>(9,379)</u>	<u>(69,282)</u>
Cash flows from investing activities:		
Investment interest received	<u>4,162</u>	<u>17,828</u>
Net cash provided by investing activities	<u>4,162</u>	<u>17,828</u>
Net change in cash	(5,217)	(51,454)
Cash, beginning of year	<u>1,938,948</u>	<u>1,990,402</u>
Cash, end of year	<u><u>\$ 1,933,731</u></u>	<u><u>\$ 1,938,948</u></u>

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, 2020 and 2019, 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 \$22,700 and \$21,500 for the years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, there were 33 participating municipalities in the Fund with a total number of participants of 813 and 828, 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:

	2020	2019
Expenses and current fee structure:		
Service agent fees – RMI (per dental participant - \$3.00 in 2020 and 2019)	<u>\$ 20,910</u>	<u>\$ 19,740</u>
Administrative fees – LMA (per dental participant - \$2.00 in 2020 and 2019)	<u>\$ 13,940</u>	<u>\$ 13,160</u>

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:

	2020	2019
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 14	\$ 24
Incurred claims and claims adjustment expense-provision for insured events	156	169
Less payments – claims and claims adjustment expenses	<u>(160)</u>	<u>(179)</u>
Unpaid claims and claims adjustment expenses liability, end of year	<u>\$ 10</u>	<u>\$ 14</u>

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, 2020 and 2019. 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, 2020 and 2019 consists of the following:

	2020	2019
Interest income	\$ 6,857	\$ 15,133

As of December 31, 2020 and 2019, the Fund had the following deposits:

	2020 Estimated Fair Value	2019 Estimated Fair Value
Cash and cash equivalents invested in LAMP	\$ 1,500,890	-
Cash and cash equivalents	432,841	1,938,948
TOTAL	\$ 1,933,731	\$ 1,938,948

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 \$1,500,890 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, 2020. 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 47 days as of December 31, 2020.

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.

5. CONTINGENCY

In March 2020, the novel coronavirus (COVID-19) was declared a global pandemic and spread throughout the United States. Management began to address the impacts of the pandemic on the Fund's operations which have continued to persist through the date these financial statements were issued. The pandemic may have further impacts on the Fund's operations as well as disrupt end-customers and overall financial markets. The extent of the pandemic impacts on the Fund's operations and financial position will depend on various developments which are uncertain and cannot be predicted.

6. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2021, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2020

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 the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund)'s basic financial statements, and have issued our report thereon dated June 18, 2021.

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 18, 2021

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Public Liability Fund as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 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.

Other Supplemental 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 18, 2021, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Baton Rouge, Louisiana
June 18, 2021

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, 2020 and 2019. 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, 2020 by \$15,877,310 compared to \$11,799,314 as of December 31, 2019, which is a 34.6% increase.
- At December 31, 2020, the Fund's assets totaled \$32,058,416, which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2019, the Fund's assets totaled \$29,409,194 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 \$10,452,596 and \$10,622,617 during the years ended December 31, 2020 and 2019, respectively.
- Net position increased by \$4,077,996 and by \$495,871 during the years ended December 31, 2020 and 2019, respectively. The Fund experienced favorable development on estimated claims incurred in prior years during 2020 compared to unfavorable developments in 2019.
- At the end of the current fiscal year, the Fund's net position totaled \$15,877,310, or 98% 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>2020</u>	<u>2019</u>
Total assets	\$ 32,058,416	\$ 29,409,194
Deferred outflows	-	-
Total liabilities	16,181,106	17,609,880
Deferred inflows	-	-
Net position	<u>\$ 15,877,310</u>	<u>\$ 11,799,314</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 9% primarily related to an increase in investments as a result of cash generated from operating activities. Total liabilities decreased approximately 8% 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>2020</u>	<u>2019</u>
Operating revenues	\$ 10,452,596	\$ 10,622,617
Operating expenses	<u>7,590,791</u>	<u>11,190,605</u>
Operating income (loss)	2,861,805	(567,988)
Non-operating income	<u>1,216,191</u>	<u>1,063,859</u>
Change in net position	<u>\$ 4,077,996</u>	<u>\$ 495,871</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, 2020, the Fund reported premium revenues of \$10,452,596 and investment income of \$1,216,191. Investment income earned during 2020 increased compared to 2019 due to favorable changes in the values of the Fund's investment portfolio. The Fund reported total expenses of \$7,590,791 which consisted primarily of claims, reinsurance premiums, and administrative and service agent fees.

During 2019, the Fund reported premium income of \$10,622,617 and total expenses of \$11,190,605, which were similar in make-up to 2020. Expenses decreased from 2019 primarily as a result of lower claims expenses resulting from decreases in claims incurred during the current year and favorable development of loss reserves for prior policy years. The Fund's net position increased \$4,077,996 during 2020 and \$495,871 during 2019. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Requests for Information

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 1,860,113	\$ 3,663,565
Investments (note 4)	27,369,949	22,183,784
Accounts receivable, net	444,020	327,725
Reinsurance receivable (note 3)	520,640	216,288
Deductibles receivable	65,018	182,792
Due from affiliates - net (note 2)	1,672,709	2,724,539
Accrued interest receivable	<u>125,967</u>	<u>110,501</u>
Total assets	<u>\$ 32,058,416</u>	<u>\$ 29,409,194</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 14,086,000	\$ 15,204,000
Unearned premiums	2,087,554	2,401,421
Accrued expenses	<u>7,552</u>	<u>4,459</u>
Total liabilities	16,181,106	17,609,880
Deferred inflows	-	-
Net position	<u>15,877,310</u>	<u>11,799,314</u>
Total liabilities, deferred inflows, and net position	<u>\$ 32,058,416</u>	<u>\$ 29,409,194</u>

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 10,452,596	\$ 10,622,617
Total operating revenues	<u>10,452,596</u>	<u>10,622,617</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	3,986,451	7,759,347
Reinsurance premiums (note 2)	1,730,253	1,758,397
Administrative fees (note 2)	862,339	663,914
Service agent fees (note 2)	940,734	942,168
Miscellaneous	<u>71,014</u>	<u>66,779</u>
Total operating expenses	<u>7,590,791</u>	<u>11,190,605</u>
<u>OPERATING INCOME (LOSS)</u>	2,861,805	(567,988)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>1,216,191</u>	<u>1,063,859</u>
<u>CHANGE IN NET POSITION</u>	<u>4,077,996</u>	<u>495,871</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>11,799,314</u>	<u>11,303,443</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 15,877,310</u>	<u>\$ 11,799,314</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, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Operating income (loss)	\$ 2,861,805	\$ (567,988)
Adjustments to reconcile operating income (loss) to net cash provided by operations:		
Change in receivables and due from affiliates	733,491	1,012,709
Change in unpaid claims liability	(1,118,000)	1,128,000
Change in accrued expenses and unearned premiums	(310,774)	(550,614)
Net cash provided by operating activities	2,166,522	1,022,107
Cash flows from investing activities:		
Purchases of investments	(17,373,731)	(13,328,745)
Proceeds from sales and maturities of investments	12,823,577	10,812,620
Investment income received	580,180	573,197
Net cash used in investing activities	(3,969,974)	(1,942,928)
Net change in cash	(1,803,452)	(920,821)
Cash, beginning of year	3,663,565	4,584,386
Cash, end of year	\$ 1,860,113	\$ 3,663,565

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, 2020 and 2019, there were 195 and 203 participating municipalities, respectively.

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

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

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

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

(b) *Basis of Accounting*

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

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

(d) *Investments*

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

(e) *Premium Income and Receivables*

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

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

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Unpaid Claims Liability*

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

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

(h) *Statements of Cash Flows*

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

(i) *Excess Reinsurance*

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

(j) *Income Taxes*

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Use of Estimates

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

(l) Reclassification

Certain reclassifications have been made to the 2019 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, 2020 and 2019, respectively. The respective percentages of the earned normal premiums and earned standard premiums are as follows:

	<u>2020</u>	<u>2019</u>
Expenses (and current fee structure):		
Administrative fee – LMA (8.25% & 6.25%, respectively) of earned premium	<u>\$ 862,339</u>	<u>\$ 663,914</u>
Service agent - RMI (9.00% & 8.75%, respectively) of earned premium	<u>\$ 940,734</u>	<u>\$ 942,168</u>
Reinsurance premium – LMRFA 16.55% of earned premium	<u>\$ 1,730,253</u>	<u>\$ 1,758,397</u>
Reinsurance recoveries from LMRFA	<u>\$ 890,908</u>	<u>\$ 2,304,240</u>
Due (to) from affiliates:		
LMA	\$ 47,921	\$ 79,260
RMI	(59,095)	(96,857)
LMRFA	<u>1,683,883</u>	<u>2,742,136</u>
	<u>\$ 1,672,709</u>	<u>\$ 2,724,539</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2020 and 2019:

	2020	2019
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 25,367	\$ 23,900
Less: reinsurance recoverables	10,163	9,824
Liability for unpaid losses at beginning of year, net	15,204	14,076
Net incurred related to:		
Current year	6,031	5,728
Change in discount rate	-	306
Prior years	(2,045)	1,725
Total incurred	3,986	7,759
Net paid related to:		
Current year	851	642
Prior years	4,253	5,989
Total paid	5,104	6,631
Liability for unpaid losses at end of year, gross	24,024	25,367
Less: reinsurance recoverables	9,938	10,163
Liability for unpaid losses at end of year, net	\$ 14,086	\$ 15,204

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are \$520,640 and \$216,288 of paid claims which are recoverable from the reinsurer at December 31, 2020 and 2019, respectively.

During 2020, the Fund experienced favorable development of prior year estimated loss reserves. During 2019, the fund experienced unfavorable development of prior year estimated loss reserves. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2020 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2020, 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, 2020 and 2019, 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 \$632,000 and \$688,000 at December 31, 2020 and 2019, respectively.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the years ended December 31, 2020 and 2019.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2020 and 2019:

<u>Investment Type</u>	<u>2020</u>		<u>2019</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	\$ 6,813,223	\$ 6,659,889	\$ 6,720,329	\$ 6,653,197
U.S. Agency debt obligations	17,564,652	16,842,559	12,360,879	12,194,685
U.S. Treasury bonds	2,319,286	2,230,118	2,783,352	2,795,531
Money market funds	<u>672,788</u>	<u>672,788</u>	<u>319,224</u>	<u>319,224</u>
TOTAL	<u>\$ 27,369,949</u>	<u>\$ 26,405,354</u>	<u>\$ 22,183,784</u>	<u>\$ 21,962,637</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market accounts are not required to be rated. The table on the following page is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2020 and 2019.

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2020:

<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	\$ 17,564,652	\$ 1,814,166	\$10,433,941	\$ 5,316,545	\$ -
U.S. Treasury bonds and notes	2,319,286	204,758	-	2,114,528	-
Money market funds	<u>672,788</u>	<u>672,788</u>	<u>-</u>	<u>-</u>	<u>-</u>
	20,556,726	<u>\$ 2,691,712</u>	<u>\$ 10,433,941</u>	<u>\$ 7,341,073</u>	<u>\$ -</u>
U.S. Government mortgage-backed securities	<u>6,813,223</u>				
TOTAL	<u>\$ 27,369,949</u>				

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

Net investment income for the years ended December 31, 2020 and 2019 consists of the following:

	2020	2019
Interest income	\$ 513,476	\$ 527,608
Realized losses – net	(40,734)	(28,458)
Unrealized gains arising during the year - net	<u>743,449</u>	<u>564,709</u>
	<u>\$ 1,216,191</u>	<u>\$ 1,063,859</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

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

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

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

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

The fair value of investment securities was determined as follows at December 31, 2020 and 2019:

December 31, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
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	<u>672,788</u>	<u>-</u>	<u>672,788</u>
	<u>\$ 20,556,726</u>	<u>\$ 6,813,223</u>	<u>\$ 27,369,949</u>

December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 2,783,352	\$ -	\$ 2,783,352
U.S. Government mortgage- backed securities	-	6,720,329	6,720,329
U.S. Agency debt obligations	12,360,879	-	12,360,879
Money market funds	<u>319,224</u>	<u>-</u>	<u>319,224</u>
	<u>\$ 15,463,455</u>	<u>\$ 6,720,329</u>	<u>\$ 22,183,784</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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

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

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

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

	<u>2020</u>	<u>2019</u>
Assets	\$ 55,947,384	\$ 54,941,647
Liabilities	<u>37,528,480</u>	<u>38,510,120</u>
Net Position	<u>\$ 18,418,904</u>	<u>\$ 16,431,527</u>

At December 31, 2020 and 2019, the Fund included approximately \$9.9 and \$10.2 million, respectively as recoverable from LMRFA (included in the liabilities above) which reduced liabilities for anticipated losses. The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

6. 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.

In March 2020, the novel coronavirus (COVID-19) was declared a global pandemic and spread throughout the United States. Management began to address the impacts of the pandemic on the Fund's operations which have continued to persist through the date these financial statements were issued. The pandemic may have further impacts on the Fund's operations as well as disrupt end-customers and overall financial markets. The extent of the pandemic impacts on the Fund's operations and financial position will depend on various developments which are uncertain and cannot be predicted.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2021, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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

DECEMBER 31, 2020
(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 2020 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>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>	<u>2011</u>
	(in thousands)									
ENP and investment income	\$ 11,669	\$ 11,686	\$ 11,384	\$ 11,918	\$ 11,963	\$ 12,343	\$ 10,727	\$ 11,721	\$ 11,988	\$ 11,811
Operating costs unallocated	3,604	3,431	3,400	3,519	3,468	3,563	6,432	5,499	3,611	3,395
Estimated incurred claims and claims expense, end of policy year	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374	8,778	6,826
Paid (cumulative) as of:										
End of policy year	851	642	687	643	719	686	765	838	1,084	931
One year later	-	2,088	1,954	1,688	2,293	2,416	2,346	2,669	2,705	2,644
Two years later	-	-	3,178	3,463	4,027	4,383	4,631	4,621	5,189	4,733
Three years later	-	-	-	3,960	5,290	5,899	5,946	6,109	6,326	5,860
Four years later	-	-	-	-	5,781	6,857	6,678	6,398	6,802	6,222
Five years later	-	-	-	-	-	7,139	6,957	6,622	7,124	6,503
Six years later	-	-	-	-	-	-	7,146	6,704	7,267	6,611
Seven years later	-	-	-	-	-	-	-	6,713	7,328	6,688
Eight years later	-	-	-	-	-	-	-	-	7,248	6,708
Nine years later	-	-	-	-	-	-	-	-	-	6,710
Estimated incurred claims and claims expense:										
End of policy year	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374	8,778	6,826
One year later	-	5,691	6,108	5,231	6,914	7,209	7,267	7,619	8,476	7,083
Two years later	-	-	5,430	5,820	6,840	7,444	7,873	7,398	8,324	7,466
Three years later	-	-	-	5,346	7,148	7,780	7,485	7,680	7,982	7,297
Four years later	-	-	-	-	6,794	7,852	7,537	7,269	7,814	6,970
Five years later	-	-	-	-	-	7,638	7,481	7,158	7,671	7,017
Six years later	-	-	-	-	-	-	7,376	7,023	7,601	6,898
Seven years later	-	-	-	-	-	-	-	6,921	7,526	6,857
Eight years later	-	-	-	-	-	-	-	-	7,444	6,823
Nine years later	-	-	-	-	-	-	-	-	-	6,710
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(297)	(187)	80	(333)	894	(237)	(453)	(1,334)	(116)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2020

Agency Head Name: John Gallagher

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

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

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

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statement of net position as of December 31, 2020, 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 18, 2021.

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 18, 2021

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development information 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 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.

Other 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 18, 2021, 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 18, 2021

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, 2020 and 2019. 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, 2020 by \$26,224,923 compared to \$24,572,409 as of December 31, 2019, which is a 6.7% increase over the previous year.
- At December 31, 2020, the Fund's assets totaled \$42,603,205 which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2019 the Fund's assets totaled \$42,435,528 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 \$6,724,238 and \$6,903,116 during the years ended December 31, 2020 and 2019, respectively, and an increase in net position of \$1,652,514 and a decrease in net position of \$130,815 during the years ended December 31, 2020 and 2019, respectively. The Fund experienced favorable development on estimated claims incurred in prior years during 2020 compared to slightly unfavorable development in 2019.
- At the end of the current fiscal year, the Fund's net position totaled \$26,224,923 or 160% of the Fund's liabilities. The Fund's premiums earned during 2020 were approximately 26% of its net position at December 31, 2020.

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>2020</u>	<u>2019</u>
Total assets	\$ 42,603,205	\$ 42,435,528
Deferred outflows	-	-
Total liabilities	16,378,282	17,863,119
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 26,224,923</u>	<u>\$ 24,572,409</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets increased approximately 0.40% due to normal fluctuations. Total liabilities decreased approximately 8.3% mainly due to the decreases in the unpaid claims liabilities. Net position increased approximately 6.7% 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>2020</u>	<u>2019</u>
Operating revenues	\$ 6,724,238	\$ 6,903,116
Operating expenses	<u>7,219,850</u>	<u>9,034,355</u>
Operating loss	(495,612)	(2,131,239)
Non-operating income	<u>2,148,126</u>	<u>2,000,424</u>
Change in net position	<u>\$ 1,652,514</u>	<u>\$ (130,815)</u>

Premium revenues decreased \$178,878 or 2.6% primarily due to reductions in membership and changes in premium rates and covered payroll. During the year ended December 31, 2020, the Fund reported premiums earned income of \$6,724,238 and non-operating investment income of \$2,148,126. During 2020, the Fund reported total expenses of \$7,219,850, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses decreased \$1,814,505 or 20% compared to the prior year primarily as a result of more favorable development of prior year reserve estimates.

The Fund's net position increased during 2020 by \$1,652,514 compared to a decrease of \$130,815 in the prior year. This is primarily a result of investment income and favorable reserve releases reducing 2020 claims expense as discussed above. See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Financial Outlook

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

Requests for Information

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	2020	2019
Cash and cash equivalents	\$ 700,994	\$ 1,365,005
Investments (note 4)	39,559,381	39,421,942
Accounts receivable, net	652,456	720,923
Reinsurance receivable (note 3)	1,004,037	730,894
Due from affiliates (note 2)	488,500	-
Accrued interest receivable	197,837	196,764
	\$ 42,603,205	\$ 42,435,528
Total assets		
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability (note 3)	\$ 11,671,000	\$ 12,458,000
Unearned premiums	941,556	1,145,522
Due to affiliates (note 2)	-	545,195
Accounts payable and accrued expenses	3,765,726	3,714,402
	16,378,282	17,863,119
Total liabilities		
Deferred inflows	-	-
Net position	26,224,923	24,572,409
Total liabilities, deferred inflows, and net position	\$ 42,603,205	\$ 42,435,528

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, 2020 AND 2019

	2020	2019
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 6,724,238	\$ 6,903,116
Total operating revenues	6,724,238	6,903,116
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	3,193,595	4,671,861
Administrative fees (note 2)	840,530	853,969
Service agent fees (note 2)	672,424	742,582
Reinsurance premiums (note 2)	1,832,355	2,023,536
Second Injury Fund assessment	476,075	524,276
Office of Workers' Compensation assessment	93,590	133,050
Other	111,281	85,081
Total operating expenses	7,219,850	9,034,355
<u>OPERATING LOSS</u>	(495,612)	(2,131,239)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	2,148,126	2,000,424
<u>CHANGE IN NET POSITION</u>	1,652,514	(130,815)
<u>NET POSITION - BEGINNING OF YEAR</u>	24,572,409	24,703,224
<u>NET POSITION - END OF YEAR</u>	\$ 26,224,923	\$ 24,572,409

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Operating loss	\$ (495,612)	\$ (2,131,239)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in receivables and reinsurance receivable	(204,676)	1,108,164
Change in unpaid claims liability	(787,000)	310,000
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	<u>(1,187,410)</u>	<u>296,072</u>
Net cash used in operating activities	<u>(2,674,698)</u>	<u>(417,003)</u>
Cash flows from investing activities:		
Investment income received	989,586	1,071,762
Purchases of investments	(17,963,739)	(24,539,501)
Proceeds from sales and maturities of investments	<u>18,984,840</u>	<u>23,496,922</u>
Net cash provided by investing activities	<u>2,010,687</u>	<u>29,183</u>
Net change in cash	(664,011)	(387,820)
Cash, beginning of year	<u>1,365,005</u>	<u>1,752,825</u>
Cash, end of year	<u><u>\$ 700,994</u></u>	<u><u>\$ 1,365,005</u></u>

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, 2020 and 2019, there were 150 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 and U.S. Government Agency and Treasury obligations.

(e) *Premium Income and Accounts Receivable*

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

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. At each of December 31, 2020 and 2019, 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 2019 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, 2020 and 2019. The respective percentages of the earned normal premiums are as follows:

	2020	2019
Expenses (and current fee structure):		
Administrative fees – LMA (12.50% and 11.50% of ENP, respectively)	<u>\$ 840,530</u>	<u>\$ 853,969</u>
Service agent fees - RMI (10.00% of ENP)	<u>\$ 672,424</u>	<u>\$ 742,582</u>
Reinsurance premium - LMRFA (27.25% of ENP)	<u>\$ 1,832,355</u>	<u>\$ 2,023,536</u>
Reinsurance recoveries from LMRFA	<u>\$ 3,034,515</u>	<u>\$ 2,791,836</u>
Due to (from) affiliates:		
LMA	(\$ 364,425)	(\$ 176,955)
RMI	(336,011)	(117,431)
LMRFA	<u>211,936</u>	<u>839,581</u>
	<u>(\$ 488,500)</u>	<u>\$ 545,195</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2020 and 2019:

	2020	2019
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 38,859	\$ 36,788
Less: reinsurance recoverables	26,401	24,640
Liability for unpaid losses at beginning of year, net	12,458	12,148
Net incurred related to:		
Current year	4,199	4,203
Change in discount rate	-	385
Prior years	(1,005)	84
Total incurred	3,194	4,672
Net paid related to:		
Current year	1,021	832
Prior years	2,960	3,530
Total paid	3,981	4,362
Liability for unpaid losses at end of year, gross	37,508	38,859
Less: reinsurance recoverables (note 5)	25,837	26,401
Liability for unpaid losses at end of year, net	\$ 11,671	\$ 12,458

In addition to the unpaid claims covered by the reinsurers, there are \$1,004,037 and \$730,894 of paid claims which are recoverable from the reinsurer at December 31, 2020 and 2019, respectively. During 2020 the Fund experienced favorable development on unpaid claims liabilities established in prior years while in 2019 experienced slight unfavorable development. 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, 2020 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2020 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, 2020 and 2019, 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 \$848,000 and \$907,000 at December 31, 2020 and 2019, 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.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2020 and 2019.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2020 and 2019:

<u>Investment Type</u>	2020		2019	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S. Treasury bonds and notes	\$ 8,041,792	\$ 7,520,678	\$ 7,461,628	\$ 7,434,761
U.S. Government mortgage- backed securities	10,574,614	10,240,923	12,706,199	12,516,877
U.S. Agency debt obligations	20,243,777	19,139,544	18,759,470	18,388,859
Money market funds	<u>699,198</u>	<u>699,198</u>	<u>494,645</u>	<u>494,645</u>
TOTAL	<u>\$ 39,559,381</u>	<u>\$ 37,600,343</u>	<u>\$ 39,421,942</u>	<u>\$ 38,835,142</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

Credit Risk

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

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2020:

<u>INVESTMENT TYPE</u>	<u>Estimated Fair Value</u>	<u>INVESTMENT MATURITIES (in years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Greater than 10</u>
U.S. Treasury bonds and notes	\$ 8,041,792	\$ 172,538	\$ 3,657,376	\$ 4,211,878	\$ -
U.S. Agency debt obligations	20,243,777	2,527,415	11,407,321	6,309,041	-
Money market funds	<u>699,198</u>	<u>699,198</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 28,984,767</u>	<u>\$ 3,399,151</u>	<u>\$ 15,064,697</u>	<u>\$10,520,919</u>	<u>\$ -</u>
U.S. Government mortgage-backed securities	<u>10,574,614</u>				
TOTAL	<u>\$39,559,381</u>				

Investment income for the years ended December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 880,082	\$ 989,833
Realized losses, net	(104,192)	(47,993)
Unrealized gains arising during the year	<u>1,372,236</u>	<u>1,058,584</u>
	<u>\$ 2,148,126</u>	<u>\$ 2,000,424</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

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

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

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

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

The fair value of investment securities was determined as follows at December 31, 2020 and 2019:

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>\$ 28,984,766</u>	<u>\$ 10,574,614</u>	<u>\$ 39,559,381</u>

December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 7,461,628	\$ -	\$ 7,461,628
U.S. Government mortgage- backed securities	-	12,706,199	12,706,199
U.S. Agency debt obligations	18,759,470	-	18,759,470
Money market funds	494,645	-	494,645
	<u>\$ 26,715,743</u>	<u>\$ 12,706,199</u>	<u>\$ 39,421,942</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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Assets	\$ 55,947,382	\$ 54,941,647
Liabilities	<u>37,246,947</u>	<u>38,510,120</u>
Net position	<u>\$ 18,700,435</u>	<u>\$ 16,431,527</u>

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

In March 2020, the novel coronavirus (COVID-19) was declared a global pandemic and spread throughout the United States. Management began to address the impacts of the pandemic on the Fund's operations which have continued to persist through the date these financial statements were issued. The pandemic may have further impacts on the Fund's operations as well as disrupt end-customers and overall financial markets. The extent of the pandemic impacts on the Fund's operations and financial position will depend on various developments which are uncertain and cannot be predicted.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2021, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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

DECEMBER 31, 2020
(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 2020 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.

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	(in thousands)									
ENP and investment income	\$ 8,872	\$ 8,904	\$ 9,144	\$ 10,547	\$ 10,847	\$ 8,270	\$ 10,119	\$ 8,956	\$ 11,046	\$ 11,787
Operating costs, unallocated	4,026	4,363	4,836	4,740	5,319	4,087	12,669	7,317	5,887	5,721
Estimated incurred claims and expense, end of policy year	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343	6,103	4,786
Paid (cumulative) as of:										
End of policy year	1,021	832	971	993	903	811	1,198	1,195	1,301	1,096
One year later	-	2,180	2,308	2,415	2,111	1,944	3,071	2,514	3,353	2,187
Two years later	-	-	2,800	3,266	2,770	2,534	3,825	3,464	4,389	2,671
Three years later	-	-	-	3,702	3,199	3,042	4,637	4,069	5,458	2,962
Four years later	-	-	-	-	3,312	3,385	4,855	4,406	6,093	3,224
Five years later	-	-	-	-	-	3,507	5,004	4,656	6,255	3,293
Six years later	-	-	-	-	-	-	5,187	4,719	6,301	3,338
Seven years later	-	-	-	-	-	-	-	4,816	6,384	3,328
Eight years later	-	-	-	-	-	-	-	-	6,477	3,386
Nine years later	-	-	-	-	-	-	-	-	-	3,449
Estimated incurred claims and claims expense:										
End of policy year	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343	6,103	4,786
One year later	-	4,407	4,674	4,705	4,084	4,595	5,979	5,823	7,359	4,450
Two years later	-	-	4,373	4,888	4,494	4,298	6,179	5,847	7,752	4,106
Three years later	-	-	-	4,861	4,247	4,244	6,284	5,896	8,018	4,004
Four years later	-	-	-	-	4,193	4,250	5,882	5,729	8,037	3,949
Five years later	-	-	-	-	-	4,231	5,680	5,464	7,497	3,791
Six years later	-	-	-	-	-	-	5,757	5,387	7,087	3,694
Seven years later	-	-	-	-	-	-	-	5,405	7,077	3,638
Eight years later	-	-	-	-	-	-	-	-	7,156	3,605
Nine years later	-	-	-	-	-	-	-	-	-	3,639
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	61	(6)	191	(460)	(876)	(529)	(938)	1,053	(1,147)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2020

Agency Head Name: John Gallagher

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of December 31, 2020, 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 18, 2021.

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*.



Postlethwaite & Netterville

Purpose of this Report

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 18, 2021

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

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

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



Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 18, 2021, 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 18, 2021

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, 2020 and 2019. 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, 2020 by \$4,938,461 compared to \$4,534,937 at December 31, 2019, which is approximately a 8.9% increase from the previous year.
- At December 31, 2020 and 2019, the Fund's assets totaled \$5,293,009 and \$4,933,382, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$372,633 and \$370,035 during the years ended December 31, 2020 and 2019, respectively. Change in net position was an increase of \$403,524 in 2020 and \$331,532 in 2019.
- Investment gains were \$253,473 in 2020 compared to \$237,460 during 2019. The increase in investment gains in 2020 were 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, 2020</u>	<u>December 31, 2019</u>
Total assets	\$ 5,293,009	\$ 4,933,382
Total liabilities	<u>354,548</u>	<u>398,445</u>
Net position	\$ <u><u>4,938,461</u></u>	\$ <u><u>4,534,937</u></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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 372,633	\$ 370,035
Operating expenses	<u>222,582</u>	<u>275,963</u>
Operating gain	150,051	94,072
Non-operating income	<u>253,473</u>	<u>237,460</u>
Change in net position	<u>\$ 403,524</u>	<u>\$ 331,532</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 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 decreased by approximately 0.70% from the year ended December 31, 2019 to 2020. Claims expense decreased approximately 29.2% during the year ended December 31, 2020 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. 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 2020 increased by \$403,524.

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, 2020 AND 2019

	2020	2019
Assets		
Cash and cash equivalents (note 2)	\$ 282,056	\$ 178,725
Investments (note 2)	4,887,177	4,633,869
Accounts receivable	100,944	96,726
Accrued interest receivable	22,832	24,062
Total Assets	\$ 5,293,009	\$ 4,933,382
Deferred outflows	-	-
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	4,548	48,445
Total Liabilities	354,548	398,445
Deferred inflows	-	-
Net position	4,938,461	4,534,937
Total liabilities, deferred inflows, and net position	\$ 5,293,009	\$ 4,933,382

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, 2020 AND 2019

	2020	2019
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 372,633	\$ 370,035
Total operating revenues	372,633	370,035
 <u>OPERATING EXPENSES</u>		
Claims expense (note 3)	141,766	200,094
Service agent fees	51,793	53,705
Miscellaneous	29,023	22,164
Total operating expenses	222,582	275,963
 <u>OPERATING INCOME</u>		
	150,051	94,072
 <u>NON-OPERATING INCOME</u>		
Investment income - net	253,473	237,460
 <u>CHANGE IN NET POSITION</u>		
	403,524	331,532
 NET POSITION - BEGINNING OF YEAR		
	4,534,937	4,203,405
 NET POSITION - END OF YEAR		
	\$ 4,938,461	\$ 4,534,937

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, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Operating income	\$ 150,051	\$ 94,072
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	(4,218)	(5,797)
Prepays	-	14,201
Accrued expenses, unpaid claims and other liabilities	(43,897)	(8,870)
Net cash provided by operating activities	101,936	93,606
Cash flows from investing activities:		
Purchases of investments	(1,883,693)	(1,988,764)
Proceeds from sale or maturity of investments	1,765,558	1,865,764
Investment income received	119,530	125,157
Net cash provided by investing activities	1,395	2,157
Net change in cash	103,331	95,763
Cash, beginning of year	178,725	82,962
Cash, end of year	\$ 282,056	\$ 178,725

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, 2020, there were approximately 6,000 participants and 143 participating municipalities. As of December 31, 2019, there were approximately 6,600 participants and 148 participating municipalities.

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

(b) *Basis of Accounting*

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

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

(c) *Net Position*

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Cash and Cash Equivalents*

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

(e) *Investments*

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

(f) *Unpaid Claims Liability*

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

(g) *Income Taxes*

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

(h) *Premium Income and Accounts Receivable*

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

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

(i) *Use of Estimates*

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

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2020 and 2019.

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

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

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

<u>Investment Type</u>	<u>2020</u>		<u>2019</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	\$ 885,594	\$ 846,860	\$ 591,427	\$ 589,526
U.S. Government mortgage-backed securities	1,129,592	1,095,380	1,327,396	1,312,609
U.S. Agency debt obligations	2,795,315	2,637,311	2,644,692	2,588,532
Money market funds	<u>76,676</u>	<u>76,676</u>	<u>70,354</u>	<u>70,354</u>
TOTAL	<u>\$ 4,887,177</u>	<u>\$ 4,656,227</u>	<u>\$ 4,633,869</u>	<u>\$ 4,561,021</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

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

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

Credit Risk

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

All of the Fund's investments with the exception of money market investments 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.

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, 2020:

	Estimated Fair Value	Less Than 1 Year	1 – 5 Years	5 – 10 Years	Over 10 Years
U.S. Treasury bonds and notes	\$ 885,594	\$ 127,623	\$ 84,846	\$ 673,125	\$ -
U.S. Agency debt obligations	2,795,315	204,161	1,799,625	791,529	-
Money market funds	<u>76,676</u>	<u>76,676</u>	-	-	-
	<u>3,757,585</u>	<u>\$ 408,460</u>	<u>\$ 1,884,471</u>	<u>\$ 1,464,654</u>	<u>\$ -</u>
 U.S. Government mortgage- backed securities	 <u>1,129,592</u>				
 TOTAL	 <u>\$ 4,887,177</u>				

Investment income for the years ended December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 105,753	\$ 114,114
Net realized loss	(10,383)	(7,771)
Unrealized net gain arising during the year	<u>158,103</u>	<u>131,117</u>
	<u>\$ 253,473</u>	<u>\$ 237,460</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, 2020 and 2019:

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>

December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 591,427	\$ -	\$ 591,427
U.S. Government mortgage- backed securities	-	1,327,396	1,327,396
U.S. Agency debt obligations	2,644,692	-	2,644,692
Money market funds	70,354	-	70,354
	<u>\$ 3,306,473</u>	<u>\$ 1,327,396</u>	<u>\$ 4,633,869</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, 2020 and 2019:

	<u>2020</u>	<u>2019</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>142</u>	<u>200</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	45	109
Claims and claim adjustment expenses attributable to insured events of prior years	<u>97</u>	<u>91</u>
Total payments	<u>142</u>	<u>200</u>
Total unpaid claims and claims adjustment expenses liability at end of year	<u>\$ 350</u>	<u>\$ 350</u>

4. CONTINGENCY

In March 2020, the novel coronavirus (COVID-19) was declared a global pandemic and spread throughout the United States. Management began to address the impacts of the pandemic on the Fund's operations which have continued to persist through the date these financial statements were issued. The pandemic may have further impacts on the Fund's operations as well as disrupt end-customers and overall financial markets. The extent of the pandemic impacts on the Fund's operations and financial position will depend on various developments which are uncertain and cannot be predicted.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2021, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2020

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, 2020, 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 18, 2021.

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 18, 2021

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2020

LOUISIANA MUNICIPAL RESERVE FUND AGENCY
FINANCIAL STATEMENTS
DECEMBER 31, 2020

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net position of the business type activities of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 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.

Other Information

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

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

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 18, 2021, 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 18, 2021

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, 2020 and 2019. 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, 2020 by \$18,700,435 compared to \$16,431,527 as of December 31, 2019, which is a 14% increase from the previous year. This increase was driven by lower claims experience resulting from favorable development of loss reserves on prior policy years.
- At December 31, 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. At December 31, 2019, the Fund's assets totaled \$54,941,647 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 \$3,562,608 and \$3,781,933 during the years ended December 31, 2020 and 2019, 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 2019.
- The Fund reported investment income of \$2,934,367 and of \$2,799,005 during the years ended December 31, 2020 and 2019, respectively. The increase in investment income is attributed to fluctuations in the fair value in the investment portfolio based on overall market conditions.
- The Fund had an increase in net position of \$2,268,908 and a decrease in net position of \$3,233,249 during the years ended December 31, 2020 and 2019, respectively. During 2020, the increase in net position is primarily a result of significant favorable claims development at the primary level of the Public Liability reserve estimates. In 2019, the Fund also recognized a change in the discount rate used for discounting claims reserves which increased 2019 claims expense and 2019 operating loss by \$2.3 million.

Overview of the Financial Statements

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

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

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

Financial Analysis of the Fund

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

Condensed Statements of Net Position at December 31:

	<u>2020</u>	<u>2019</u>
Total assets	\$ 55,947,382	\$ 54,941,647
Deferred outflows	-	-
Total liabilities	37,246,947	38,510,120
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 18,700,435</u>	<u>\$ 16,431,527</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 1.8% while liabilities decreased by approximately 3.3% due to reduced estimates of unpaid claims liability. Net position increased approximately 13.8% 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>2020</u>	<u>2019</u>
Operating revenues	\$ 3,562,608	\$ 3,781,933
Operating expenses	<u>4,228,067</u>	<u>9,814,187</u>
Operating (loss) income	(665,459)	(6,032,254)
Non-operating income	<u>2,934,367</u>	<u>2,799,005</u>
Change in net position	<u>\$ 2,268,908</u>	<u>(\$ 3,233,249)</u>

During the year ended December 31, 2020, the Fund reported premium earned of \$3,562,608 and investment income of \$2,934,367. Premiums earned decreased slightly due to decreases in the Worker's Compensation and Public Liability Fund's underlying membership. The Fund reported total expenses of \$4,228,067 and \$9,814,187 as of December 31, 2020 and 2019, respectively, which consisted primarily of claims expense and reinsurance expense. The 2020 expenses reflect favorable loss development emerging during the year compared to 2019 which reflected unfavorable loss development. The Fund experienced an operating loss of \$665,459 and an increase in net position of \$2,268,908 for the current year. See the Statements of Revenues, Expenses, and Changes in Net Position on page 7 of this report.

Requests for Information

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 712,841	\$ 1,324,501
Investments (note 4)	54,987,277	53,051,795
Prepaid reinsurance	-	312,500
Accrued interest receivable	<u>247,264</u>	<u>252,851</u>
Total assets	<u>\$ 55,947,382</u>	<u>\$ 54,941,647</u>
Deferred outflows	-	-

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability (note 3)	\$ 35,775,000	\$ 36,597,000
Due to affiliates (note 2)	1,471,947	1,902,555
Accrued expenses	<u>-</u>	<u>10,565</u>
Total liabilities	37,246,947	38,510,120
Deferred inflows	-	-
Net position	<u>18,700,435</u>	<u>16,431,527</u>
Total liabilities, deferred inflows, and net position	<u>\$ 55,947,382</u>	<u>\$ 54,941,647</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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUES</u>		
Premiums earned (note 2)	\$ 3,562,608	\$ 3,781,933
Total operating revenues	<u>3,562,608</u>	<u>3,781,933</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	2,900,587	8,579,203
Professional fees and other	77,480	84,984
Reinsurance premium (note 5)	<u>1,250,000</u>	<u>1,150,000</u>
Total operating expenses	<u>4,228,067</u>	<u>9,814,187</u>
<u>OPERATING LOSS</u>	(665,459)	(6,032,254)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	<u>2,934,367</u>	<u>2,799,005</u>
<u>CHANGE IN NET POSITION</u>	2,268,908	(3,233,249)
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>16,431,527</u>	<u>19,664,776</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 18,700,435</u>	<u>\$ 16,431,527</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, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Operating income (loss)	\$ (665,459)	\$ (6,032,254)
Adjustments to reconcile operating income (loss) to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	(112,521)	843,084
Change in unpaid claims liability	(822,000)	2,133,000
Change in accrued expenses	(10,565)	(3,733)
Net cash used in operating activities	(1,610,545)	(3,059,903)
Cash flows from investing activities:		
Purchases of investments	(21,896,123)	(26,900,523)
Proceeds from sales or maturities of investments	21,591,709	27,566,883
Investment income received	1,303,299	1,349,600
Net cash provided by investing activities	998,885	2,015,960
Net change in cash	(611,660)	(1,043,943)
Cash, beginning of year	1,324,501	2,368,444
Cash, end of year	\$ 712,841	\$ 1,324,501

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

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

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

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

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

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

(b) Basis of Accounting

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

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

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

(d) *Investments*

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

(e) *Premium Income*

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

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

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Unpaid Claims Liability*

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

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

(h) *Statements of Cash Flows*

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

(i) *Income Taxes*

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

(j) *Use of Estimates*

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

(k) *Reclassifications*

Certain accounts have been reclassified to conform to the current year presentation. These reclassifications have had no effect on the change in net position for 2019.

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>2020</u>		<u>2019</u>	
	Fee Basis	Amount	Fee Basis	Amount
Premium income:				
LMRMA:				
Public Liability	16.55% ESP	\$ 1,730,253	16.55% ESP	\$ 1,758,397
Workers' Compensation	27.25% ENP	<u>1,832,355</u>	27.25% ENP	<u>2,023,536</u>
		<u>\$ 3,562,608</u>		<u>\$ 3,781,933</u>
Due (to) from affiliates:				
LMRMA:				
Public Liability		(\$ 1,683,883)		(\$ 2,742,136)
Workers' Compensation		<u>211,936</u>		<u>839,581</u>
		<u>(\$ 1,471,947)</u>		<u>(\$ 1,902,555)</u>

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 37,418	\$ 34,773
Less: Reinsurance recoverables	<u>821</u>	<u>309</u>
Liability for unpaid losses at beginning of year, net	<u>36,597</u>	<u>34,464</u>
Net incurred related to:		
Current year	4,162	3,738
Change in discount rate	-	2,265
Prior years	<u>(1,261)</u>	<u>2,576</u>
Total incurred	<u>2,901</u>	<u>8,579</u>
Net paid related to:		
Current year	61	-
Prior years	<u>5,304</u>	<u>7,064</u>
Total paid	<u>5,365</u>	<u>7,064</u>
Liability for unpaid losses at end of year, gross	37,012	37,418
Less: Reinsurance recoverables	<u>1,237</u>	<u>821</u>
Liability for unpaid losses at end of year, net	<u>\$ 35,775</u>	<u>\$ 36,597</u>

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

	<u>2020</u>	<u>2019</u>
	(Amounts in thousands)	
Workers' Compensation	\$ 25,837	\$ 26,434
Public Liability	<u>9,938</u>	<u>10,163</u>
	<u>\$ 35,775</u>	<u>\$ 36,597</u>

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. During 2019, the Fund experienced unfavorable development related to the assumed Public Liability unpaid claims liabilities resulting from actual reported losses being higher than expected at the primary layer offset by slight favorable development in the assumed Workers' Compensation estimation. The liability for unpaid losses has been reduced in 2020 for estimated amounts recoverable from a commercial reinsurance policy on the Workers' Compensation (see note 5.) In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2020 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2020 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 each of December 31, 2020 and 2019, 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 \$6,635,000 and \$5,838,000 at December 31, 2020 and 2019, 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, 2020 and 2019.

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

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

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2020 and 2019:

<u>Investment Type</u>	<u>2020</u>		<u>2019</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	\$ 13,644,382	\$ 13,242,452	\$ 16,476,220	\$ 16,326,806
U.S. Government agency debt obligations	31,979,290	30,233,989	29,668,150	29,126,886
U.S. Treasury bonds and notes	7,793,372	7,209,030	6,246,506	6,069,842
Money market funds	<u>1,570,233</u>	<u>1,570,233</u>	<u>660,919</u>	<u>660,919</u>
TOTAL	<u>\$ 54,987,277</u>	<u>\$ 52,255,704</u>	<u>\$ 53,051,795</u>	<u>\$ 52,184,453</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 debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

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

All of the Fund's investments with the exception of money market investments are 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.

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. In some instances, actual maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2020:

<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	\$ 31,979,290	3,628,097	16,493,344	11,857,849	-
U.S. Treasury bonds and notes	7,793,372	40,307	3,254,452	4,498,613	-
Money market funds	<u>1,570,233</u>	<u>1,570,233</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 41,342,895</u>	<u>\$ 5,238,637</u>	<u>\$ 19,747,796</u>	<u>\$ 16,356,462</u>	<u>\$ -</u>
U.S. Government mortgage backed securities	<u>\$ 13,644,382</u>				
TOTAL	<u>\$ 54,987,277</u>				

Net investment income for the years ended December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 1,212,560	\$ 1,294,075
Net realized losses – net	(142,426)	(72,481)
Unrealized gains (losses) arising during the year	<u>1,864,233</u>	<u>1,577,411</u>
	<u>\$ 2,934,367</u>	<u>\$ 2,799,005</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, 2020 and 2019:

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	<u>1,570,233</u>	<u>-</u>	<u>1,570,233</u>
	<u>\$ 41,342,895</u>	<u>\$ 13,644,382</u>	<u>\$ 54,987,277</u>

December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 6,246,506	\$ -	\$ 6,246,506
U.S. Government mortgage- backed securities	-	16,476,220	16,476,220
U.S. Agency debt obligations	29,668,150	-	29,668,150
Treasury bills/money market funds	<u>660,919</u>	<u>-</u>	<u>660,919</u>
	<u>\$ 36,575,575</u>	<u>\$ 16,476,220</u>	<u>\$ 53,051,795</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 from March 5, 2018 to December 31, 2018. Reinsurance premium for this policy totaled \$1,350,000 for the period of coverage.

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 from January 1, 2019 to December 31, 2019. Reinsurance premium for this policy totaled \$1,150,000 for the period of coverage.

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 from January 1, 2020 to December 31, 2020. Reinsurance premium for this policy totaled \$1,250,000 for the period of coverage.

As of December 31, 2020 and 2019, 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, 2020 and 2019.

Workers' Compensation Fund

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

Public Liability Fund

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

6. CONTINGENCY

In March 2020, the novel coronavirus (COVID-19) was declared a global pandemic and spread throughout the United States. Management began to address the impacts of the pandemic on the Fund's operations which have continued to persist through the date these financial statements were issued. The pandemic may have further impacts on the Fund's operations as well as disrupt end-customers and overall financial markets. The extent of the pandemic impacts on the Fund's operations and financial position will depend on various developments which are uncertain and cannot be predicted.

7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 18, 2021, and determined that there were no events that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

DECEMBER 31, 2020

(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 2020 and as of the end of each of the last nine years.

	<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>	<u>2011</u>
	(in thousands)									
ENP and investment income	\$ 6,497	\$ 6,581	4,697	\$ 5,216	5,311	\$ 9,962	\$ 9,910	\$ 6,948	\$ 7,590	\$ 6,672
Operating costs, unallocated	1,327	1,235	1,429	82	86	66	87	162	127	127
Estimated incurred claims and expense, end of policy year	4,822	4,261	4,642	6,012	7,038	6,695	9,072	7,037	9,594	9,529
Paid (cumulative) as of:										
End of policy year	61	-	81	334	-	-	-	1	1,087	797
One year later	-	136	505	783	138	291	228	189	1,160	1,733
Two years later	-	-	722	1,737	1,418	859	830	262	2,268	3,106
Three years later	-	-	-	1,816	1,884	1,710	1,440	641	2,677	4,036
Four years later	-	-	-	-	2,247	2,304	1,753	716	2,795	4,336
Five years later	-	-	-	-	-	2,529	2,000	808	3,481	4,602
Six years later	-	-	-	-	-	-	2,308	925	3,914	4,762
Seven years later	-	-	-	-	-	-	-	1,082	4,220	4,935
Eight years later	-	-	-	-	-	-	-	-	4,522	5,038
Nine years later	-	-	-	-	-	-	-	-	-	5,285
Estimated incurred claims and claims expense:										
End of policy year	4,822	4,261	4,642	6,012	7,038	6,695	9,072	7,037	9,594	9,529
One year later	-	3,581	5,111	5,018	6,454	6,136	6,747	6,774	11,680	10,038
Two years later	-	-	4,491	5,449	5,080	5,269	6,113	4,606	11,462	9,087
Three years later	-	-	-	4,769	4,802	6,352	4,816	4,077	9,213	8,697
Four years later	-	-	-	-	4,831	5,803	4,443	2,947	8,395	7,267
Five years later	-	-	-	-	-	5,526	4,349	2,972	7,019	7,015
Six years later	-	-	-	-	-	-	4,216	2,870	7,142	6,528
Seven years later	-	-	-	-	-	-	-	2,824	6,860	6,298
Eight years later	-	-	-	-	-	-	-	-	7,313	6,143
Nine years later	-	-	-	-	-	-	-	-	-	6,222
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(680)	(151)	(1,243)	(2,207)	(1,169)	(4,856)	(4,213)	(2,281)	(3,307)

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2020

Agency Head Name: John Gallagher

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund), which comprise the statement of net position as of December 31, 2020, 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 18, 2021.

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 18, 2021