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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND
PUBLIC LIABILITY FUND
WORKER'S COMPENSATION FUND

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

LMA - UNEMPLOYMENT COMPENSATION FUND

DECEMBER 31, 1999

Under provisions of state law, this report is a public document. A copy of this report has been submitted to the mayor and chief judge of each parish. The report is available for public review at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date JUL 26 2000



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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund

We have audited the accompanying balance sheet of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. *These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended December 31, 1998, were audited by other auditors whose opinion dated June 11, 1999, on those statements was unqualified.*

We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1999 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, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 19, 2000 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 grants.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 19, 2000

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS

	<u>1999</u>	<u>1998</u>
Cash (note 4)	\$ 87,467	\$ 66,912
Investments (note 4)	2,001,180	2,846,220
Reinsurance receivable	89,423	63,614
Accounts receivable	70,520	68,846
Accrued interest receivable	20,321	29,275
	<u>2,268,911</u>	<u>3,074,867</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims liability (note 3)	1,710,000	1,837,000
Due to affiliates (note 2)	68,479	38,976
Accounts payable	206,589	161,512
	<u>1,985,068</u>	<u>2,037,488</u>
Retained earnings	283,843	1,037,379
	<u>\$ 2,268,911</u>	<u>\$ 3,074,867</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>REVENUES:</u>		
Premium income	\$ 7,135,223	\$ 8,469,293
Investment income	105,958	127,388
Contribution	4,000	4,000
	7,245,181	8,600,681
<u>EXPENSES:</u>		
Administrative fees (note 2)	15,455	17,725
Claims expense (note 3)	7,159,160	7,049,006
Reinsurance premiums	442,388	471,973
Service agent fees (note 2)	364,244	405,230
Miscellaneous	17,470	12,368
	7,998,717	7,956,302
Net (loss) income	(753,536)	644,379
Retained earnings, beginning of year	1,037,379	393,000
Retained earnings, end of year	\$ 283,843	\$ 1,037,379

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Cash flows from operating activities:		
Net (loss) income	\$ (753,536)	\$ 644,379
Less adjustment for investment income	(105,958)	(127,388)
	<u>(859,494)</u>	<u>516,991</u>
Adjustments to reconcile net (loss) income to net cash (used in) provided by operations:		
Decrease (increase) in reinsurance receivable	(25,809)	512,120
Decrease (increase) in receivables	(1,674)	63,625
Decrease in unpaid claims liability	(127,000)	(173,000)
Increase (decrease) in accounts payable, due to affiliates	74,580	(176,107)
	<u>(79,903)</u>	<u>226,638</u>
Total adjustments		
Net cash (used in) provided by operating activities	<u>(939,397)</u>	<u>743,629</u>
Cash flows from investing activities:		
Purchase of investments	(346,713)	(1,376,981)
Sales/maturities of investments	1,168,232	596,537
Investment interest received	138,433	103,727
	<u>959,952</u>	<u>(676,717)</u>
Net cash provided by (used in) investing activities		
Net increase in cash	<u>20,555</u>	<u>66,912</u>
Cash, beginning of year	<u>66,912</u>	<u>-</u>
Cash, end of year	<u>\$ 87,467</u>	<u>\$ 66,912</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 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. Fund underwriting and rate-setting policies have been established by the board of the Fund after consultation with the 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.

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 Agency is vested in the Executive Board of LMA. As of December 31, 1999 and 1998, there were 76 and 82 participating municipalities, 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 fund balances are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 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. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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

(c) ***Investments***

Investments are reported at 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 and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government Agency obligations.

(d) ***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.

(e) ***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. 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. 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 claim amounts in the financial statements.

(f) ***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.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Reinsurance

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in note 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 risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy.

(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

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 generally accepted accounting principles. Actual results could differ from those estimates.

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 the respective earned normal premiums as follows:

	1999	1998
Expenses:		
Administrative fees - LMA (\$0.60 per person per month)	\$ 15,455	\$ 17,725
Service agent fees - RMI (\$13.05 for health participants and \$1.20 for dental participants)	\$ 364,244	\$ 405,230
Due to affiliates:		
LMA	\$ 1,282	\$ 1,599
RMI	67,197	37,377
	\$ 68,479	\$ 38,976



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

3. CLAIMS EXPENSE AND UNPAID CLAIMS RESERVE

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 1999 and 1998:

	1999	1998
	(Amounts in thousands)	
Unpaid claims and claim adjustment Expenses at beginning of year	\$ 1,837	\$ 2,010
Incurred claims and claim adjustment Expense-provision for insured events	7,159	7,049
Less payments - claims and claim Adjustment expenses	(7,286)	(7,222)
Unpaid claims reserve	\$ 1,710	\$ 1,837

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

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 made by these agencies 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 period ended December 31, 1999 and 1998.

All demand deposits and certificates of deposit are insured or collateralized by pledged securities held by an agent in the name of the Fund.

	1999	1998
Insured	\$ 87,467	\$ 66,912
Uninsured	-	-
	\$ 87,467	\$ 66,912



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. DEPOSITS AND INVESTMENTS (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. Included in investments are certificates of deposit, money market accounts, U.S. Government obligations and repurchase agreements.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$2,011,510 and \$2,838,063 at December 31, 1999 and 1998, respectively. The fair value for investments by security type at December 31, 1999 and 1998 are as follows:

	1999	1998	Category
Certificates of deposit	\$ 100,000	\$ 100,000	-
Money market accounts and repurchase agreements	487,228	807,731	-
U.S. Government Agency obligations	1,046,577	1,160,821	1
U.S. Treasury securities	367,375	777,668	1
	\$ 2,001,180	\$ 2,846,220	

The certificates of deposit, money market accounts, and repurchase agreements are insured or collateralized by obligations of the U.S. Government, registered in the name of and held by the Fund's agent.

The scheduled maturities of investments held were as follows at December 31:

	1999	1998
Due in one year	\$1,666,830	\$ 1,612,939
Due after one year through five year	334,350	1,233,281
	\$2,001,180	\$ 2,846,220



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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

Investment income for the years ended December 31, 1999 and 1998 consists of the following:

	<u>1999</u>	<u>1998</u>
Interest income	\$ 124,123	\$ 122,210
Realized gains (losses) – net	322	-
Unrealized gains (losses) arising during the year	<u>(18,487)</u>	<u>5,178</u>
	<u>\$ 105,958</u>	<u>\$ 127,388</u>

5. **REINSURANCE POLICY COVERAGE**

The Fund and its reinsurers represent a cooperative program for group funding and risk management of accident and health 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, and the Fund has the authority to assess the participants to fund any deficits incurred.

Subsequent to December 31, 1994, the Fund obtained reinsurance from a commercial insurer to provide the following coverage:

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 each and every loss in excess of \$100,000 each and every loss.

The commercial reinsurer covered all claims incurred in 1995 and thereafter. No claims for reinsurance are outstanding from LMRFA as of December 31, 1999 and 1998.





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Report on Compliance and on Internal Control over Financial Reporting 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:

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of and for the year ended December 31, 1999, and have issued our report thereon dated April 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency – Accident and Health Fund, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville
Baton Rouge, Louisiana
April 19, 2000



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998



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

We have audited the accompanying balance sheet of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended December 31, 1998, were audited by other auditors whose opinion dated June 11, 1999, on those statements was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 19, 2000, 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 grants.

Our audit was made for the purpose of forming an opinion on the 1999 basic financial statements taken as a whole. The supplementary information included on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 1999 basic financial statements taken as a whole.

The financial information on page 13 for the year ended December 31, 1998, was audited by other auditors whose report dated June 11, 1999, stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 1998, taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 19, 2000

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Cash (note 4)	\$ 502,192	\$ 187,470
Investments (note 4)	13,839,963	14,668,737
Deductibles receivable	175,216	65,186
Accounts receivable	361,706	87,243
Accrued interest receivable	86,525	65,604
Note receivable (note 2)	812,328	1,405,758
	\$ 15,777,930	\$ 16,479,998

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims liability (note 3)	\$ 7,524,570	\$ 8,379,095
Unearned premiums	2,130,654	2,134,679
Due to affiliates - net (note 2)	227,290	1,075,534
Accrued expenses	4,481	3,383
	9,886,995	11,592,691
Retained earnings	5,890,935	4,887,307
	\$ 15,777,930	\$ 16,479,998

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>REVENUES</u>		
Premium income	\$ 5,471,530	\$ 6,208,246
Investment income	451,357	1,207,968
	<hr/>	<hr/>
Total revenue	5,922,887	7,416,214
	<hr/>	<hr/>
<u>EXPENSES</u>		
Claims expense (note 3)	2,481,702	4,167,643
Administrative fees (note 2)	541,686	1,313,311
Reinsurance premiums (note 2)	1,341,042	1,522,415
Service agent fees (note 2)	519,996	590,324
Miscellaneous	34,833	26,048
	<hr/>	<hr/>
Total expenses	4,919,259	7,619,741
	<hr/>	<hr/>
Net income (loss)	1,003,628	(203,527)
Retained earnings, beginning of year	4,887,307	5,090,834
	<hr/>	<hr/>
Retained earnings, end of year	<u>\$ 5,890,935</u>	<u>\$ 4,887,307</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net income (loss)	\$ 1,003,628	\$ (203,527)
Less adjustment for investment income	(451,357)	(1,207,968)
	<u>552,271</u>	<u>(1,411,495)</u>
Adjustments to reconcile net income (loss) to net cash used in operations:		
(Increase) decrease in receivables	(384,493)	(4,035)
Increase (decrease) in unpaid claims liability	(854,525)	(743,750)
Increase (decrease) in accrued expenses, unearned premiums and due to affiliates	(851,171)	(423,016)
Total adjustments	<u>(2,090,189)</u>	<u>(1,170,801)</u>
Net cash used in operating activities	<u>(1,537,918)</u>	<u>(2,582,296)</u>
Cash flows from investing activities:		
Purchase of investments	(4,234,265)	(5,579,409)
Sales/maturity of investments	4,578,568	6,120,378
Investment interest received	914,907	1,102,519
Principal payments from note receivable	593,430	526,953
Net cash provided by investing activities	<u>1,852,640</u>	<u>2,170,441</u>
Net increase (decrease) in cash	314,722	(411,855)
Cash, beginning of year	<u>187,470</u>	<u>599,325</u>
Cash, end of year	<u>\$ 502,192</u>	<u>\$ 187,470</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 the 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.

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 Agency is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund. As of both December 31, 1999 and 1998, there were 174 and 179 participating municipalities, 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 fund balances are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 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. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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

(c) *Investments*

Investments are reported at 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 and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government agency obligations and are held for long-term purposes.

(d) *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.

Accounts receivable are current and considered to be fully collectible by management; therefore, no reserve for bad debts has been established.

(e) *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. 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 general 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. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements. Such reserves have been discounted at 5.8% at December 31, 1999 and 1998, respectively.

(f) *Statement of Cash Flows*

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, they are classified as investments.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Reinsurance*

The Fund uses reinsurance to reduce its exposure to large losses on insured events. 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 risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

(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*

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 generally accepted accounting principles. Actual results could differ from those estimates.

2. RELATED PARTY TRANSACTIONS

(a) *Fees and Services*

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 the respective earned normal premiums (ENP) as follows:

	<u>1999</u>	<u>1998</u>
Expenses:		
Administrative fee - LMA (2% of ENP plus interest earned)	\$ 541,686	\$ 1,313,311
Service agent - RMI (9.5% of ENP)	\$ 519,996	\$ 590,324
Reinsurance - LMRFA (24.5% of ENP)	\$ 1,341,042	\$ 1,522,415
Reinsurance recoveries - LMRFA	\$ 556,047	\$ 2,306,234
Due to (from) affiliates:		
LMA	\$ 293,418	\$ 1,065,044
RMI	57,820	67,824
LMRFA	(123,948)	(57,334)
	<u>\$ 227,290</u>	<u>\$ 1,075,534</u>

LMA receives all interest earnings of the Fund as part of this administrative fee. Amounts have been returned by LMA to the Fund based on the Board's discretion.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

2. RELATED PARTY TRANSACTIONS (continued)

(b) *Note Receivable*

LMA has a variable rate note agreement with the Fund. The note bears an interest rate equal to the average investment return yielded by the Fund on its other investments (6.20% and 6.34% at December 31, 1999 and 1998, respectively). LMA is currently making monthly payments of \$20,425 due the first day of each month based on a 360 month amortization. Collateral for this note is a building owned by LMA. The Fund earned interest of \$85,495 and \$118,142 in respect to the note for the years ended December 31, 1999 and 1998, respectively. In 1999, the Fund received \$433,829 as part of the 1998 excess interest distribution to be used as a reduction in the balance of the note and in 1998, the Fund received \$400,000 as part of the 1997 excess interest distribution to be used as a reduction in the balance of the note.

The payments on principal balance due at December 31, 1999 are scheduled as follows:

2000	\$ 195,366
2001	209,239
2002	224,097
2003	<u>183,626</u>
	<u>\$ 812,328</u>

(c) *Premium Rebates*

During 1997, the Fund's participants used \$286,991 unearned credits. In addition, the Fund received a rebate of \$896,333 from LMA's board related to 1996 earned administrative fees which were available to participants for 1998 premium payments. In addition, the Fund received \$518,749 as a reduction in the notes receivable from LMA.

During 1998, the Fund's participants used \$434,372 unearned credits. In addition, the Fund received a rebate of \$600,000 from LMA's board related to 1997 earned administrative fees which were available to participants for 1999 premium payments. In addition, the Fund received \$400,000 as a reduction in the notes receivable from LMA.

During 1999, the Fund's participants used \$600,257 unearned credits. In addition, the Fund received a rebate of \$725,737 from LMA's board related to 1998 earned administrative fees which will be available to participants for 2000 premium payments. In addition, the Fund received \$433,829 as a reduction in the notes receivable from LMA.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

3. CLAIMS EXPENSE AND UNPAID CLAIMS RESERVE

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 1999 and 1998:

	1999	1998
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 14,860	\$ 18,426
Less: Reinsurance recoverables	6,481	9,303
Liability for unpaid losses at beginning of year (net)	8,379	9,123
Net incurred related to:		
Current year	2,699	3,706
Prior years	(217)	462
Total incurred	2,482	4,168
Net paid related to:		
Current year	460	687
Prior years	2,876	4,225
Total paid	3,336	4,912
Liability for unpaid losses at end of year (net)	7,525	8,379
Reinsurance recoverables	7,460	6,481
Liability for unpaid losses at end of year (gross)	\$ 14,985	\$ 14,860

The Fund's claims payable have been discounted based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% for December 31, 1999 and 1998, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$856,000 and \$927,000 at December 31, 1999 and 1998, respectively.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 made by these agencies 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 is in compliance with these revised provisions as of and during the period ended December 31, 1999 and 1998.

The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances protected by federal depository insurance or pledged collateral.

	<u>1999</u>		<u>1998</u>	
Insured	\$ 502,192	\$	187,470	
Uninsured	-		-	
	<u>\$ 502,192</u>	<u>\$</u>	<u>187,470</u>	

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.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$14,253,137 and \$14,537,739 at December 31, 1999 and 1998, respectively. The fair value for investments by security type at December 31, 1999 and 1998 are as follows:

	<u>1999</u>		<u>1998</u>	
	<u>Fair Value</u>	<u>Category</u>	<u>Fair Value</u>	<u>Category</u>
Certificates of deposit	\$ 100,000	-	\$ 100,000	-
Money market accounts	779,871	-	1,052,076	-
U.S. Government Agency obligations	11,497,255	1	11,659,036	1
U.S. Treasury securities	<u>1,462,837</u>	1	<u>1,857,625</u>	1
	<u>\$ 13,839,963</u>		<u>\$ 14,668,737</u>	



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. DEPOSITS AND INVESTMENTS (continued)

The scheduled maturities of investments held were as follows at December 31:

	<u>1999</u>	<u>1998</u>
Due in one year	\$ 1,894,779	\$ 1,429,986
Due after one year through five years	2,348,435	4,704,293
Due after five years through ten years	2,647,325	2,323,131
Due after ten years	<u>6,949,424</u>	<u>6,211,327</u>
	<u>\$ 13,839,963</u>	<u>\$ 14,668,737</u>

The U.S. Government agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. The repurchase agreement, certificates of deposits, cash and money markets are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent.

Included in investment balances as of December 31, 1999 and 1998 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$3,105,366 and \$3,886,588 as of December 31, 1999 and 1998, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 1999 and 1998 consists of the following:

	<u>1999</u>	<u>1998</u>
Interest income	\$ 992,188	\$ 1,038,543
Realized gains (losses) – net	3,341	11,283
Unrealized gains (losses) arising during the year	<u>(544,172)</u>	<u>158,142</u>
	<u>\$ 451,357</u>	<u>\$ 1,207,968</u>

5. REINSURANCE POLICY COVERAGE

During the periods ended December 31, 1999 and 1998, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following aggregate:

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

Item II: \$400,000 each and every loss in excess of \$100,000 each and every loss



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

5. REINSURANCE POLICY COVERAGE (continued)

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.

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 cover 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 balance sheets for LMRFA for the years ended December 31, 1999 and 1998:

	<u>Assets</u>	
	1999	1998
Cash	\$ 100,345	\$ 100,326
Investments	31,658,225	29,693,877
Accrued interest receivable	362,385	332,194
Other receivables	50,204	-
Reinsurance receivable	13,116	408,258
	\$ 32,184,275	\$ 30,534,655
<u>Liabilities and Retained Earnings</u>		
Liabilities:		
Unpaid claims reserve	\$ 12,220,000	\$ 12,131,000
Reinsurance payable	-	613,738
Due to affiliate	300,367	63,370
Unearned premium	37,304	39,192
Accrued expense	7,953	8,342
	12,565,624	12,855,642
Retained earnings	19,618,651	17,679,013
	\$ 32,184,275	\$ 30,534,655



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

Schedule

December 31, 1999

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 1999 and as of the end of each of the last nine years.

	1999	1998	1997	1996 ⁽¹⁾	1995	1994	1993	1992	1991	1990
	(in thousands)									
ENP and investment income	\$ 5,923	\$ 7,416	\$ 8,198	\$ 7,729	\$ 7,605	\$ 7,179	\$ 7,170	\$ 7,179	\$ 6,890	\$ 6,789
Operating costs unallocated	2,438	3,452	3,497	3,499	3,376	3,213	3,247	3,031	3,062	2,991
Estimated incurred claims and expense, end of policy year	2,988	4,039	4,545	4,583	4,243	3,976	3,930	4,003	3,843	3,814
Paid (cumulative) as of:										
End of policy year	460	687	655	630	463	528	409	337	415	479
One year later		1,354	1,362	1,379	1,216	1,625	1,105	1,249	984	1,081
Two years later		-	2,505	2,137	2,815	2,482	2,019	2,668	2,007	1,802
Three years later		-	-	3,209	3,524	3,119	2,575	3,297	2,613	2,556
Four years later		-	-	-	5,320	3,400	3,027	3,531	2,721	2,752
Five years later		-	-	-	-	4,407	3,286	3,526	2,807	2,946
Six years later		-	-	-	-	-	4,944	3,578	2,835	3,195
Seven years later		-	-	-	-	-	-	6,276	2,840	3,386
Eight years later		-	-	-	-	-	-	-	3,898	3,485
Nine years later		-	-	-	-	-	-	-	-	4,699
Re-estimated incurred claims and claims expense:										
End of policy year	2,988	4,039	4,545	4,583	4,243	3,976	3,930	4,003	3,843	3,814
One year later		4,039	4,545	4,583	4,243	3,976	3,930	4,037	3,843	3,814
Two years later		-	4,545	4,583	4,243	3,976	3,930	4,037	3,877	3,814
Three years later		-	-	4,583	4,243	3,976	3,930	4,037	3,877	3,829
Four years later		-	-	-	4,243	3,976	3,930	4,037	3,877	3,829
Five years later		-	-	-	-	3,976	3,930	4,037	3,877	3,829
Six years later		-	-	-	-	-	3,930	4,037	3,877	3,829
Seven years later		-	-	-	-	-	-	4,037	3,877	3,829
Eight years later		-	-	-	-	-	-	-	3,877	3,829
Nine years later		-	-	-	-	-	-	-	-	3,829
Increase in estimated incurred claims and expense from end of policy year	-	-	-	-	-	-	-	34	34	15

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





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Report on Compliance and on Internal Control over Financial Reporting 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 the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund as of and for the year ended December 31, 1999, and have issued our report thereon dated April 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency – Public Liability Fund, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville
Baton Rouge, Louisiana
April 19, 2000

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998



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:

We have audited the accompanying balance sheet of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended December 31, 1998, were audited by other auditors whose opinion dated June 11, 1999, on those statements was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As described in Note 6 to the financial statements, the Fund changed its method of accounting for insurance related assessments.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 19, 2000, 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 grants.

Our audit was for the purpose of forming an opinion on the 1999 basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the 1999 basic financial statements taken as a whole.

The financial information on page 12 for the year ended December 31, 1998, was audited by other auditors whose report dated June 11, 1999, stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 1998, taken as a whole.

Baton Rouge, Louisiana
April 19, 2000

Postlethwaite & Netterville



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Investments (note 4)	\$ 22,918,319	\$ 23,153,443
Accounts receivable	2,044,114	2,126,313
Reinsurance receivable (note 3)	106,070	163,807
Due from affiliates - net (note 2)	19,640	-
Accrued interest receivable	308,758	288,535
	\$ 25,396,901	\$ 25,732,098

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims liability (note 3)	\$ 3,553,000	\$ 4,418,000
Due to affiliates - net (note 2)	-	1,583,866
Unearned premium (note 2)	1,593,710	882,985
Accounts payable and accrued expenses	693,198	204,634
	5,839,908	7,089,485
Retained earnings	19,556,993	18,642,613
	\$ 25,396,901	\$ 25,732,098

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>REVENUES:</u>		
Premium income	\$ 3,815,841	\$ 6,448,011
Excess interest contribution (note 2)	-	720,000
Investment income	553,019	1,728,348
	4,368,860	8,896,359
<u>EXPENSES:</u>		
Claims expense (note 3)	1,361,357	1,809,120
Administrative fees (note 2)	605,784	1,852,662
Reinsurance premiums (note 2)	381,584	644,801
Service agent fees (note 2)	326,254	551,305
Second injury fund assessment	109,800	188,453
Office of workers' compensation assessment	22,541	48,818
Miscellaneous	56,399	40,771
	2,863,719	5,135,930
Net income before cumulative effect of a change in accounting principle	1,505,141	3,760,429
Cumulative effect of a change in accounting principle (Note 6)	(590,761)	-
Net income	914,380	3,760,429
Retained earnings, beginning of year	18,642,613	14,882,184
Retained earnings, end of year	\$ 19,556,993	\$ 18,642,613

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Cash flows from operating activities:		
Net income	\$ 914,380	\$ 3,760,429
Less adjustment for investment income	(553,019)	(1,728,348)
	361,361	2,032,081
Adjustments to reconcile net income to net cash (used in) operations:		
(Increase) decrease in receivables	139,936	(659,768)
Decrease in unpaid claims liability, net of reinsurance receivable	(865,000)	(1,368,000)
Increase (decrease) in accounts payable, accrued expenses, unearned premiums and due to affiliates	(404,217)	(545,457)
Total adjustments	(1,129,281)	(2,573,225)
Net cash (used in) operating activities	(767,920)	(541,144)
Cash flows from investing activities:		
Investment interest received	1,420,639	1,257,686
Purchase of investments	(7,617,651)	(12,458,533)
Sale of investments	6,964,932	11,741,991
Net cash provided by investing activities	767,920	541,144
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 worker's 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 (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 the 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 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 the Agency is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund. As of December 31, 1999 and 1998, there were 210 and 199 participating municipalities, respectively.

The various LMRMA Funds, LMA and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various fund balances are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and 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. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Investments*

Investments are reported at 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 and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government Agency and Treasury obligations.

(d) *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.

(e) *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. 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. Adjustments to claims liabilities are charged or credited to 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. The costs associated with new and renewed contracts and acquisition costs are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 5.8% at December 31, 1999 and 1998, respectively.

(f) *Statement of Cash Flows*

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, they are classified as investments.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Reinsurance

The Fund uses reinsurance agreements to reduce its exposure to large losses on insured events. 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 risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

(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

Management of the Funds has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

2. RELATED PARTY TRANSACTIONS

(a) Fees and Services

LMA, RMI and LMRFA provides 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 the respective earned normal premiums (ENP) as follows:

	<u>1999</u>	<u>1998</u>
Expenses:		
Administrative fee - LMA (2.45% of ENP plus interest earned)	\$ <u>605,784</u>	\$ <u>1,852,662</u>
Service Agent - RMI (8.55% of ENP)	\$ <u>326,254</u>	\$ <u>551,305</u>
Reinsurance - LMRFA (10% of ENP)	\$ <u>381,584</u>	\$ <u>644,801</u>
Due to (from) affiliate:		
LMA	\$ 323,382	\$ 1,570,260
RMI	(166,603)	19,642
LMRFA	<u>(176,419)</u>	<u>(6,036)</u>
	\$ <u>(19,640)</u>	\$ <u>1,583,866</u>
LMRFA reinsurance recoveries	\$ <u>368,158</u>	\$ <u>653,524</u>

LMA receives all interest earnings of LMRMA as part of this administrative fee. Amounts have been returned by LMA to the Fund based on the Board's discretion.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

2. RELATED PARTY TRANSACTIONS (continued)

During 1998, LMA's board resolved to rebate \$600,000 of the 1997 earned administrative fees back to the fund. This amount is included in premium income 1998. The \$720,000 of 1996 earned administrative fees distributed by LMA in 1997 is included in total revenues in 1998.

During 1999, LMA's board resolved to rebate \$725,737 of the 1998 earned administrative fees back to the Fund. This amount is included in unearned premiums which the Fund will use in the form of premium reduction to municipalities in 2000.

3. CLAIMS EXPENSE AND UNPAID CLAIMS RESERVE

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1999 and 1998:

	1999	1998
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 10,161	\$ 11,941
Less: Reinsurance recoverables	5,743	6,155
Liability for unpaid losses at beginning of year (net)	4,418	5,786
Net incurred related to:		
Current year	1,343	1,670
Prior years	18	139
Total incurred	1,361	1,809
Net paid related to:		
Current year	463	469
Prior years	1,763	2,708
Total paid	2,226	3,177
Liability for unpaid losses at end of year (net)	3,553	4,418
Reinsurance recoverables	4,800	5,743
Liability for unpaid losses at end of year (gross)	\$ 8,353	\$ 10,161

In addition to the unpaid claims covered by the reinsurers, there are \$106,070 and \$163,807 of paid claims which are recoverable from the reinsurer at December 31, 1999 and 1998, respectively. Settled claims have not exceeded insurance coverage.

The Fund's claims payable have been discounted based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% for December 31, 1999 and 1998, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$665,000 and \$861,000 at December 31, 1999 and 1998, respectively.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 made by these Fund's 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 Agency is in compliance with these revised provisions during the year ended December 31, 1999 and 1998.

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. During 1995, the Fund changed its policy of maintaining a cash account into wire-transferring cash as needed from investments to support disbursements. Consequently, a zero cash balance is now maintained.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$23,360,985 and \$22,785,359 at December 31, 1999 and 1998, respectively. The fair value for investments by security type at December 31, 1999 and 1998 are as follows:

	1999		1998	
	Fair value	Category	Fair value	Category
Certificates of deposit	\$ 100,000	-	\$ 100,000	-
Money market accounts	492,507	-	1,347,984	-
U.S. Government Agency Obligations	10,127,389	1	11,202,608	1
U.S. Treasury Obligations	12,198,423	1	10,502,851	1
	\$ 22,918,319		\$ 23,153,443	

The scheduled maturities of investments held were as follows at December 31:

	1999	1998
Due in one year	\$ 7,110,718	\$ 5,021,380
Due after one year through five years	8,806,301	11,853,276
Due after five years through ten years	4,803,037	4,302,954
Due after ten years	2,198,263	1,975,833
	\$ 22,918,319	\$ 23,153,443



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. DEPOSITS AND INVESTMENTS

Included in investment balances as of December 31, 1999 and 1998 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$1,557,765 and \$2,147,443 as of December 31, 1999 and 1998, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 1999 and 1998 consists of the following:

	1999	1998
Interest income	\$ 1,381,516	\$ 1,303,931
Realized gains (losses) – net	(17,747)	21,498
Unrealized gains (losses) arising during the year	(810,750)	402,919
	\$ 553,019	\$ 1,728,348

5. REINSURANCE POLICY COVERAGE

During the periods ended December 31, 1999 and 1998, LMRFA provided reinsurance to the Fund with the following aggregate coverage.

- 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

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 claims remain with the participants.

The following are balance sheets for LMRFA for the years ended December 31, 1999 and 1998.

	Assets	
	1999	1998
Cash	\$ 100,345	\$ 100,326
Accrued interest receivable	362,385	332,194
Other receivables	50,204	-
Investments	31,658,225	29,693,877
Reinsurance receivable	13,116	408,258
	\$ 32,184,275	\$ 30,534,655



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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

Liabilities and Retained Earnings

	<u>1999</u>	<u>1998</u>
Liabilities:		
Unpaid claims reserve	\$ 12,220,000	\$ 12,131,000
Reinsurance payable	-	613,738
Due to affiliate	300,367	63,370
Unearned premium	37,304	39,192
Accrued expense	7,953	8,342
	<u>12,565,624</u>	<u>12,855,642</u>
Retained earnings	<u>19,618,651</u>	<u>17,679,013</u>
	<u>\$ 32,184,275</u>	<u>\$ 30,534,655</u>

Effective January 1, 1995, LMRFA purchased reinsurance for workers' compensation claims from a third party reinsurer. The third party provided reinsurance to LMRFA with the following aggregate coverage.

Item I: \$1,000,000 annual aggregate

Item II: \$1,000,000 each and every loss in excess of \$50,000 each and every loss up to \$750,000

The third party reinsurer is only responsible for those claims incurred subsequent to January 1, 1995. LMRFA is the reinsurer for the claims incurred during the years prior to January 1, 1995.

6. **CHANGE IN ACCOUNTING FOR INSURANCE RELATED ASSESSMENTS**

The Fund adopted Statement of Position 97-3, *Accounting By Insurance and Other Enterprises for Insurance - Related Assessments* (SOP 97-3), to be effective January 1, 1999. The Fund is subject to assessments by the Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund has traditionally recognized these assessments as expense as benefits are paid annually. SOP 97-3 requires the accrual of estimated assessment costs as related claim benefits are incurred rather than paid. Accordingly, the Fund recorded a \$590,761 charge in 1999 to reflect the estimated assessments related to unpaid claims.



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

**SCHEDULE
DECEMBER 31, 1999**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 1998 and as of the end of each of the last nine years.

	1999	1998	1997	1996 ⁽¹⁾	1995	1994	1993	1992	1991	1990
	(in thousands)									
ENP and investment income	\$ 4,369	8,896	8,805	8,094	9,506	9,569	9,886	8,572	7,808	6,658
Operating costs, unallocated	1,502	3,327	2,836	2,889	3,380	2,991	3,136	2,529	2,328	2,102
Estimated incurred claims and expense, end of policy year	1,473	4,621	4,979	5,811	6,512	6,352	7,041	5,913	4,678	4,526
Paid (cumulative) as of:										
End of policy year	463	469	811	725	1,007	819	1,033	1,343	1,323	1,576
One year later	-	1,067	1,377	1,218	1,940	1,736	2,109	3,240	2,712	3,342
Two years later	-	-	1,726	1,280	2,276	2,137	2,611	4,089	3,741	4,157
Three years later	-	-	-	1,376	2,480	2,456	2,989	4,472	4,379	4,691
Four years later	-	-	-	-	2,620	2,511	3,129	4,708	4,740	5,182
Five years later	-	-	-	-	-	2,633	3,157	4,919	4,989	5,518
Six years later	-	-	-	-	-	-	3,166	5,020	5,110	5,692
Seven years later	-	-	-	-	-	-	-	5,075	5,146	5,783
Eight years later	-	-	-	-	-	-	-	-	5,150	5,786
Nine years later	-	-	-	-	-	-	-	-	-	5,808
Re-estimated incurred claims and claims expense:										
End of policy year	1,473	4,621	4,979	5,811	6,512	6,352	7,041	5,913	4,678	4,526
One year later	-	4,052	5,409	5,811	6,413	6,670	6,770	5,656	5,309	4,825
Two years later	-	-	5,409	5,882	6,413	6,670	7,163	5,656	5,270	4,825
Three years later	-	-	-	5,882	6,593	6,670	7,163	6,020	5,270	4,744
Four years later	-	-	-	-	6,593	6,670	7,163	6,020	5,270	4,744
Five years later	-	-	-	-	-	6,670	7,163	6,020	5,270	4,744
Six years later	-	-	-	-	-	-	7,163	6,020	5,270	4,744
Seven years later	-	-	-	-	-	-	-	6,020	5,258	4,744
Eight years later	-	-	-	-	-	-	-	-	5,258	4,739
Nine years later	-	-	-	-	-	-	-	-	-	4,737
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(569)	430	71	81	318	122	107	580	209

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





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Report on Compliance and on Internal Control Over Financial Reporting 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 the financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of and for the year ended December 31, 1999, and have issued our report thereon dated April 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 19, 2000

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LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND
FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund:

We have audited the accompanying balance sheet of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended December 31, 1998, were audited by other auditors whose opinion dated June 11, 1999, on those statements was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1999 financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 19, 2000, 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 grants.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 19, 2000



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS

	<u>1999</u>	<u>1998</u>
Cash in banks (note 3)	\$ 105,581	\$ 75,147
Accounts receivable	81,114	20,390
Accrued interest receivable	102,997	43,209
Investments (note 3)	<u>6,123,679</u>	<u>6,312,794</u>
	<u>\$ 6,413,371</u>	<u>\$ 6,451,540</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Accrued expenses	\$ 6,962	\$ 59,154
Unpaid claims liability (note 4)	39,920	63,420
Policyholder dividend payable (note 2)	<u>100,000</u>	<u>100,000</u>
	146,882	222,574
Retained earnings	<u>6,266,489</u>	<u>6,228,966</u>
	<u>\$ 6,413,371</u>	<u>\$ 6,451,540</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>REVENUES:</u>		
Premium income	\$ 198,344	\$ 81,561
Investment income	136,263	588,586
	<hr/>	<hr/>
Total revenues	334,607	670,147
	<hr/>	<hr/>
<u>EXPENSES:</u>		
Claims expense (note 4)	163,349	214,062
Service agent	22,963	22,297
Policyholder dividend (note 2)	100,000	100,000
Miscellaneous	10,772	1,255
	<hr/>	<hr/>
Total expenses	297,084	337,614
	<hr/>	<hr/>
Net income	37,523	332,533
Retained earnings, beginning of year	6,228,966	5,896,433
	<hr/>	<hr/>
Retained earnings, end of year	\$ 6,266,489	\$ 6,228,966
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Cash flows from operating activities:		
Net income	\$ 37,523	\$ 332,533
Less adjustment for investment income	(136,263)	(588,586)
	(98,740)	(256,053)
Adjustments to reconcile net income to net cash used in operations:		
(Increase) decrease in receivables	(60,724)	18,614
Increase (decrease) in unpaid claims reserve	(23,500)	19,656
Increase (decrease) in accrued expenses and policyholder dividend payable	(52,192)	152,440
Total adjustments	(136,416)	190,710
Net cash used in operating activities	(235,156)	(65,343)
Cash flows from investing activities:		
Purchases of investments	(1,374,280)	(4,770,685)
Sale or maturity of investments	1,300,160	4,441,650
Interest income received	339,710	435,685
Net cash provided by investing activities	265,590	106,650
Net increase in cash	30,434	41,307
Cash, beginning of year	75,147	33,840
Cash, end of year	\$ 105,581	\$ 75,147

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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 joined together in self-insurance agreements with respect to unemployment compensation fund insurance. Administration of the Fund is vested in the Executive Board of Louisiana Municipal Association.

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.

As of December 31, 1999, there were 5,684 participants and 138 participating municipalities. As of December 31, 1998, there were 5,722 participants and 135 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their equity is available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 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. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

(c) *Cash and Cash Flows*

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. Deposits are carried at cost and are separately displayed on the balance sheets as cash in banks.

(d) *Investments*

Investments are reported at 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 on investments recorded at fair value are included in investment income. Included in investments are certificates of deposit with original maturities of greater than 90 days, deposits in money market accounts, certificates of deposit, investments in U.S. Government Agency Obligations and Treasury and short-term repurchase agreements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

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

(e) *Unpaid Claims Liability*

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the accounting estimate of prior years' claims expense. Because the adjustment to prior years' loss amounts represents changes in accounting estimates, these changes are reflected in earnings 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.

(f) *Income Taxes*

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

(g) *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 generally accepted accounting principles. Actual results could differ from those estimates.

2. **RELATED PARTY TRANSACTIONS**

In 1998, the LMA board approved a rebate of \$100,000 of 1997 interest earnings to be paid to members of the Fund in 1999. This rebate was prorated based on premium payments for the year 1997 and applied to those municipalities that were members of the Fund as of December 31, 1997.

In 1999, the LMA board approved a rebate of \$100,000 of 1998 interest earnings to be paid to members of the Fund in 2000. This rebate is to be prorated on premium payments for the year 1998 and paid to those municipalities that were members of the Fund as of December 31, 1998.

3. **CASH AND INVESTMENTS**

Cash in banks is carried at cost. Certificates of deposit, money market accounts and repurchase agreements are included in investments as their average maturity is greater than 90 days and the amounts are reinvested continuously.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

3. CASH AND INVESTMENTS (continued)

The demand deposits are categorized to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance. Bank account balances and certificates of deposit as listed below are either insured or secured by collateral as follows:

	1999		1998
Insured	\$ 105,581	\$	75,147
Uninsured	-		-
	\$ 105,581	\$	75,147

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.

The Fund's investments are categorized as follows to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name.

The amortized cost of the Fund's investments is \$6,342,728 and \$6,287,566 at December 31, 1999 and 1998, respectively. The fair value for investments by security type at December 31, 1999 and 1998 is as follows:

	1999		1998	
	Fair Value	Category	Fair Value	Category
Money market accounts	\$ 209,744	-	\$ 499,668	-
U.S. Government Agency obligations	3,509,055	1	3,746,216	1
U.S. Treasury securities	2,404,880	1	2,066,910	1
	\$ 6,123,679		\$ 6,312,794	



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

3. **CASH AND INVESTMENTS** (continued)

The scheduled maturities of securities held were as follows at December 31:

	1999	1998
Due in one year	\$ 1,700,870	\$ 1,151,717
Due after one year through five years	2,279,224	3,058,635
Due after five years through ten years	1,041,239	1,059,455
Due after ten years	1,102,346	1,042,987
	\$ 6,123,679	\$ 6,312,794

Included in investment balances as of December 31, 1999 and 1998 are derivative investments. These investments included U.S. Treasury strips and collateralized mortgage obligations with market values of \$788,786 and \$878,034 as of December 31, 1999 and 1998, respectively. These derivative investments are interest rate sensitive, and as a result, could experience significant future market value fluctuations.

Investment income for the years ended December 31, 1999 and 1998 consists of the following:

	1999	1998
Interest income	\$ 384,883	\$ 296,188
Realized gains (losses) -- net	(4,342)	145,965
Unrealized gains (losses) arising during the year	(244,278)	146,433
	\$ 136,263	\$ 588,586



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. CLAIMS EXPENSE AND UNPAID CLAIMS RESERVE

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1999 and 1998:

	1999	1998
	(in thousands)	
Unpaid claims and claims adjustment expenses at beginning of year	\$ <u>63</u>	\$ <u>44</u>
Incurred claims and claim adjustment expenses - provision for insured events of the current year	<u>163</u>	<u>214</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	(123)	(151)
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(63)</u>	<u>(44)</u>
Total payments	<u>(186)</u>	<u>(195)</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u><u>40</u></u>	\$ <u><u>63</u></u>

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.





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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund:

We have audited the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) as of and for the year ended December 31, 1999, and have issued our report thereon dated April 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Association - Unemployment Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Baton Rouge, Louisiana
April 19, 2000

Postlethwaite & Netterville



LOUISIANA MUNICIPAL
RESERVE FUND AGENCY
FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Reserve Fund Agency

We have audited the accompanying balance sheet of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 1999, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund as of and for the year ended December 31, 1998, were audited by other auditors whose opinion dated June 11, 1999, on those statements was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 1999, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report, dated April 19, 2000, 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 grants.

Our audit was made for the purpose of forming an opinion on the 1999 basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the 1999 basic financial statements taken as a whole.

The financial information on page 12 for the year ended December 31, 1998, was audited by other auditors whose report dated June 11, 1999, stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the year ended December 31, 1998, taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 19, 2000



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**BALANCE SHEETS
DECEMBER 31, 1999 AND 1998**

ASSETS

	<u>1999</u>	<u>1998</u>
Cash (note 4)	\$ 100,345	\$ 100,326
Investments (note 4)	31,658,225	29,693,877
Accrued interest receivable	362,385	332,194
Other receivables	50,204	-
Reinsurance receivable	13,116	408,258
	<u>\$ 32,184,275</u>	<u>\$ 30,534,655</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims reserve (note 3)	\$ 12,220,000	\$ 12,131,000
Unearned premiums	37,304	39,192
Reinsurance payable	-	613,738
Due to affiliates (note 2)	300,367	63,370
Accrued expenses	7,953	8,342
	<u>12,565,624</u>	<u>12,855,642</u>
Retained earnings	<u>19,618,651</u>	<u>17,679,013</u>
	<u>\$ 32,184,275</u>	<u>\$ 30,534,655</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
<u>REVENUES:</u>		
Premium income (note 2)	\$ 1,889,284	\$ 2,362,234
Investment income	702,093	2,112,148
	<u>2,591,377</u>	<u>4,474,382</u>
<u>EXPENSES:</u>		
Claims expense (note 3)	516,874	(171,696)
Reinsurance premium	75,691	361,122
Miscellaneous	59,174	46,237
	<u>651,739</u>	<u>235,663</u>
Net income	1,939,638	4,238,719
Retained earnings, beginning of year	<u>17,679,013</u>	<u>13,440,294</u>
Retained earnings, end of year	<u>\$ 19,618,651</u>	<u>\$ 17,679,013</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998**

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net income	\$ 1,939,638	\$ 4,238,719
Less adjustment for investment income	<u>(702,093)</u>	<u>(2,112,148)</u>
	<u>1,237,545</u>	<u>2,126,571</u>
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Decrease in due from affiliates reinsurance receivable, other receivables	344,938	286,263
(Decrease) increase in unpaid claims reserve	89,000	(2,751,000)
(Decrease) increase in unearned premiums due to affiliate, reinsurance payable, and accrued expenses	<u>(379,018)</u>	<u>26,117</u>
Total adjustments	<u>54,920</u>	<u>(2,438,620)</u>
Net cash provided by (used in) operating activities	<u>1,292,465</u>	<u>(312,049)</u>
Cash flows from investing activities:		
Purchase of investments	(9,812,839)	(11,348,661)
Sale/maturity of investments	6,784,016	9,913,827
Investment interest received	<u>1,736,377</u>	<u>1,746,865</u>
Net cash provided by (used in) investing activities	<u>(1,292,446)</u>	<u>312,031</u>
Net increase (decrease) in cash	19	(18)
Cash, beginning of year	<u>100,326</u>	<u>100,344</u>
Cash, end of year	<u><u>\$ 100,345</u></u>	<u><u>\$ 100,326</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

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 Agency is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability, Workers' Compensation, and Accident and Health Funds. LMRFA also reinsures four municipalities.

LMRMA was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's 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 consultation with the 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 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, LMRFA, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various equity accounts are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 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. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Investments*

Investments are reported at 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 on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements, and U.S. government Agency and Treasury obligations.

(d) *Premium Income and Due from Affiliates*

The premium income of LMRFA collected in the current year is based on a percentage of earned normal premium of LMRMA workers' compensation and public liability funds (see note 2). For the years ended December 31, 1999 and 1998, LMRFA provided reinsurance directly to municipalities for a total premium of \$166,658 and \$125,724, respectively. The costs associated with new and renewed contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred.

(e) *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. 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 liabilities does not necessarily result in an exact amount, particularly for coverages such as general 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. Adjustments to claims liabilities are charged or credited to 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. Such reserves have been discounted at 5.8% at December 31, 1999 and 1998.

(f) *Statement 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).



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

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

(g) *Income Taxes*

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

(h) *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 generally accepted accounting principles. Actual results could differ from those estimates.

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 the respective earned normal premiums (ENP) as follows:

	Reinsurance Fee	1999	1998
Reinsurance income:			
LMRMA:			
Public Liability	24.5% ENP	\$ 1,341,042	\$ 1,522,415
Workers' Compensation	10.0% ENP	381,584	644,801
		\$ 1,722,626	\$ 2,167,216
Due (to) from affiliate:			
LMRMA:			
Public Liability		\$ (123,948)	\$ (57,334)
Workers' Compensation		(176,419)	(6,036)
		\$ (300,367)	\$ (63,370)



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

3. CLAIMS EXPENSE AND UNPAID CLAIMS RESERVE

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 12,131	\$ 14,882
Less: Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year (net)	<u>12,131</u>	<u>14,882</u>
Net incurred related to:		
Current year	1,556	1,725
Prior years	<u>(1,039)</u>	<u>(1,897)</u>
Total incurred	<u>517</u>	<u>(172)</u>
Net paid related to:		
Current year	-	140
Prior years	<u>428</u>	<u>2,439</u>
Total paid	<u>428</u>	<u>2,579</u>
Liability for unpaid losses at end of year (net)	12,220	12,131
Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year (gross)	<u>\$ 12,220</u>	<u>\$ 12,131</u>

The Fund's claims payable have been discounted based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% for December 31, 1999 and 1998, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$4,746,000 and \$5,369,000 at December 31, 1999 and 1998, 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 these agencies 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, 1999 and 1998.

The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance. "Uninsured" deposits are those balances in excess of federal depository insurance.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

4. DEPOSITS AND INVESTMENTS (continued)

	1999	1998
Insured	\$ 100,345	\$ 100,326
Uninsured	-	-
	\$ 100,345	\$ 100,326

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.

Category 1 investments include securities which are insured or registered or securities held by LMRFA or its agent in LMRFA's name. The U.S. Government agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. Money market accounts are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent.

The amortized cost of the Fund's investments are \$32,220,841 and \$29,228,149 at December 31, 1999 and 1998, respectively. The fair value for investments by type at December 31, 1999 and 1998, are as follows:

	1999		1998	
	Fair Value	Category	Fair Value	Category
December 31:				
Money market accounts	\$ 3,244,528	-	\$ 2,900,342	-
U.S. Government Agency Obligations	18,151,681	1	16,879,272	1
U.S. Treasury Obligations	10,262,016	1	9,914,263	1
	\$ 31,658,225		\$ 29,693,877	



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

4. DEPOSITS AND INVESTMENTS (continued)

The scheduled maturities of securities held were as follows at December 31:

	<u>1999</u>	<u>1998</u>
Due in one year	\$ 8,465,898	\$ 7,689,358
Due after one year through five years	11,467,379	11,298,362
Due after five years through ten years	3,984,443	5,210,062
Due after ten years	<u>7,740,505</u>	<u>5,496,095</u>
	\$ <u>31,658,225</u>	\$ <u>29,693,877</u>

Included in investment balances as of December 31, 1999 and 1998 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$2,800,206 and \$3,357,501 as of December 31, 1999 and 1998, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 1999 and 1998 consists of the following:

	<u>1999</u>	<u>1998</u>
Interest income	\$ 1,744,326	\$ 1,751,332
Realized gains (losses) – net	(13,888)	(16,172)
Unrealized gains (losses) arising during the year	<u>(1,028,345)</u>	<u>376,988</u>
	\$ <u>702,093</u>	\$ <u>2,112,148</u>

5. REINSURANCE POLICY COVERAGE

LMRMA 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.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998**

5. REINSURANCE POLICY COVERAGE (continued)

Assumed:

For the year ended December 31, 1999, LMRFA provided reinsurance to LMRMA Accident and Health, Public Liability and Workers' Compensation Funds with the following aggregate coverage:

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

Public Liability Fund

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

Item II: \$400,000 each and every loss in excess of \$100,000 each and every loss

Accident and Health Fund

Item I: Annual aggregate in excess of 125% of annual aggregate retention (85% of Earned Normal Premium), listed at a minimum of earned normal premium

Item II: \$950,000 each and every loss in excess of \$50,000 each and every loss

The LMRMA Accident and Health Fund obtained commercial reinsurance effective January 1, 1995 and is not covered by LMRFA.

As of December 31, 1999, LMRFA also provides reinsurance for 4 municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium.

Ceded:

Effective January 1, 1995, LMRFA obtained commercial reinsurance for claims as follows:

Workers' Compensation Fund

Item I: \$1,000,000 annual aggregate

Item II: \$1,000,000 each and every loss in excess of \$50,000 each and every loss up to \$750,000

No changes were made in the Public Liability Fund coverage.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

December 31, 1999

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 1999 and as of the end of each of the last nine years.

	1999	1998	1997	1996 ⁽¹⁾	1995	1994	1993	1992	1991	1990
	(in thousands)									
ENP and investment income	\$ 2,591	\$ 4,474	5,004	4,142	4,327	4,443	4,897	4,079	3,792	3,263
Operating costs, unallocated	135	407	483	415	427	20	17	2	2	7
Estimated incurred claims and expense, end of policy year	1,983	2,302	3,901	3,887	3,793	4,144	3,130	4,754	3,739	3,912
Paid (cumulative) as of:										
End of policy year	-	-	140	-	-	195	627	207	82	222
One year later	-	-	140	-	-	487	627	988	388	279
Two years later	-	-	252	69	283	490	1,175	1,710	1,249	279
Three years later	-	-	-	247	1,289	542	1,265	2,675	1,562	321
Four years later	-	-	-	-	1,350	1,155	1,446	3,700	1,732	1,008
Five years later	-	-	-	-	-	1,166	2,104	2,701	2,284	1,147
Six years later	-	-	-	-	-	-	2,136	2,844	2,474	1,422
Seven years later	-	-	-	-	-	-	-	3,022	2,646	1,721
Eight years later	-	-	-	-	-	-	-	-	2,722	1,785
Nine years later	-	-	-	-	-	-	-	-	-	1,799
Re-estimated incurred claims and claims expense:										
End of policy year	1,983	2,302	3,901	3,887	3,793	4,144	3,130	4,754	3,739	3,912
One year later	-	2,352	2,016	2,083	2,293	4,230	3,792	4,174	2,862	3,608
Two years later	-	-	1,906	1,367	3,818	2,304	3,146	5,501	3,526	3,297
Three years later	-	-	-	1,574	3,367	2,010	2,973	5,382	3,828	3,686
Four years later	-	-	-	-	3,099	2,219	3,178	4,501	4,051	3,122
Five years later	-	-	-	-	-	2,168	3,388	4,309	4,488	3,746
Six years later	-	-	-	-	-	-	3,032	4,144	4,298	3,501
Seven years later	-	-	-	-	-	-	-	4,055	4,076	3,618
Eight years later	-	-	-	-	-	-	-	-	3,807	3,268
Nine years later	-	-	-	-	-	-	-	-	-	2,994
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	50	(1,995)	(2,313)	(694)	(1,976)	(98)	(699)	68	(918)

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Officers and Trustees
Louisiana Municipal Reserve Fund Agency:

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 1999, and have issued our report thereon dated April 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Reserve Fund Agency, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

Postlethwaite & Netterville
Baton Rouge, Louisiana
April 19, 2000

