LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY ACCIDENT AND HEALTH FUND PUBLIC LIABILITY FUND

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KPMG

The Global Leader

WORKER'S COMPENSATION FUND

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

LMA - UNEMPLOYMENT COMPENSATION FUND

December 31, 1995

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Financial Statements

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY ACCIDENT AND HEALTH FUND

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance (deficit), and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 - Accident and Health Fund as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 5, 1996 on our consideration of the Fund's internal control structure and a report dated April 5, 1996 on its compliance with laws and regulations.

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April 5, 1996

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Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	1994
Cash (note 4)	ş	104,813
Investments	2,527,623	2,352,279
Reinsurance receivable	37,452	284,049
Accounts receivable	112,712	19,156
Accrued interest receivable ·	1,976	1,187
Total assets	\$ <u>2,679,763</u>	2,761,484
Liabilities and Fund Balance (Deficit)		
Liabilities:		
Unpaid claims reserve (note 3)	2,265,000	2,075,000
Unearned premium (note 2)	300,000	510,773
	<u> </u>	

Due to affiliates (note 2) Accounts payable	34,699 <u>92,352</u>	71,901 24,758
	2,692,051	2,682,432
Fund balance (deficit) (note 6)	(12,288)	<u> </u>
	\$ <u>2,679,763</u>	2,761,484

See accompanying notes to financial statements.

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Statements of Revenues, Expenses and Changes in Fund Balance (Deficit)

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Operating revenues:		
Premium income	\$ 9,779,305	10,065,184
Interest income	129,269	<u> </u>
Total operating revenue	9,908,574	<u>10,144,781</u>
Operating expenses:		
Administrative fees (note 2)	21,912	23,015
Claims expense (note 3)	9,077,188	8,459,860
Reinsurance premiums	408,915	421,949
Service agent fees (note 2)	488,763	512,081
Miscellaneous	3,136	(4,697)
Total operating expenses	9,999,914	9,412,208

(Deficiency) excess of revenues over expenses	(91,340)	732,573
Fund balance (deficit), beginning of year	<u> </u>	(653,521)
Fund balance (deficit), end of year	\$ (12,288)	79,052

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
(Deficiency) excess of revenue over expenses	\$ (91,340)	732,573
Less adjustment for investment income	(129,269)	(79,597)
	(220,609)	652,976
Adjustments to reconcile excess (deficiency) of operating revenues over expenses to net cash provided by (used in) operations:		
Decrease (increase) in due from reinsurer	246,596	(284,049)
Increase in receivables	(93,556)	(19,156)
Increase (decrease) in unpaid claims		
reserves	190,000	(58,000)
(Decrease) increase in accounts payable,		

due to affiliates and unearned premiums	<u>(180,381</u>)	71,000
Total adjustments	<u> 162,659</u>	(290,205)
Net cash (used in) provided by operating activities	<u>(57,950</u>)	<u> </u>
Cash flows from investing activities: Purchase of investments Sales/maturities of investments Investment interest received	(434,284) 258,941 <u>128,480</u>	(422,510) - <u>78,410</u>
Net cash used in investing activities	(46,863)	(344,100)
Net (decrease) increase in cash	(104,813)	18,671
Cash, beginning of year	104.813	86,142
Cash, end of year	\$	104,813

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 1995 and 1994

(1) Significant Accounting Policies

(a) Background and Financial Statement Presentation

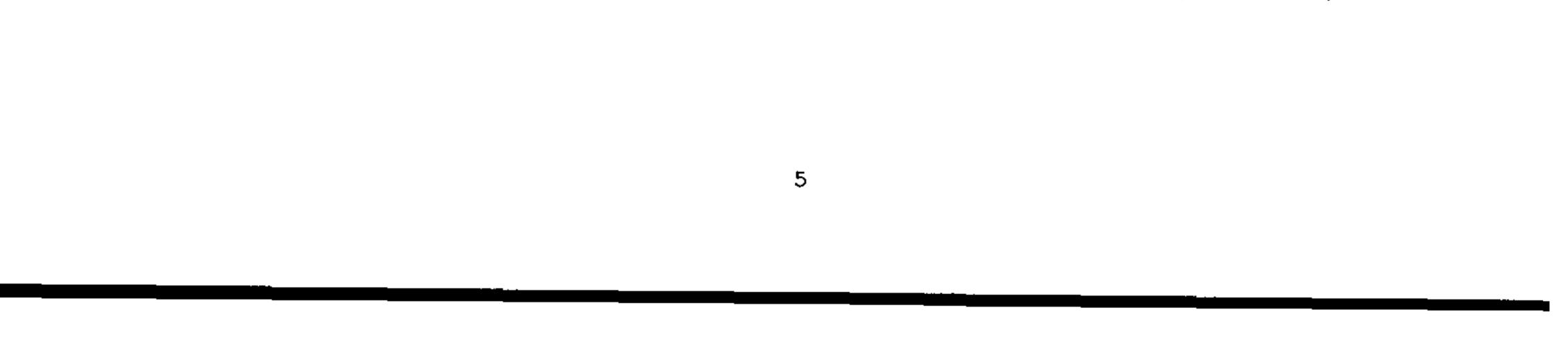
Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The 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. LMRFA reinsures the LMRMA Accident and Health Fund. As of both December 31, 1995 and 1994, there were 75 participating municipalities.

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.



Notes to Financial Statements

(b) <u>Basis of Accounting</u>

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.

(c) <u>Investments</u>

Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government agency obligations and are held for long-term investment purposes. Investments are carried at cost or amortized cost unless there is a decline in value that is considered other than temporary, in which case the carrying amount is reduced to market value.

(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 reflect 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 present value in the financial statements.

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Notes to Financial Statements

(f) <u>Cash and Cash Equivalents</u>

For the purposes of the statement 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.

(g) <u>Reinsurance</u>

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) <u>Income Taxes</u>

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

(i) <u>Use of Estimates</u>

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) <u>Related Party Transactions</u>
 - (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 as follows:

	<u>1995</u>	<u>1994</u>
Expenses:		
Administrative fees - LMA (\$0.60 per		
person per month)	\$ 21,912	23,015

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Service agent fees - RMI (\$13.05 for health participants and \$1.20 for dental participants)







(Continued)

Notes to Financial Statements

	<u>199</u>	<u>15</u>	<u>1994</u>
Reinsurance:			
RMI administrative fee (15% of monthly reinsurance fee)	\$,	500	
LMRFA (approximately \$11 .per person)	\$		421,949
LMRFA reinsurance reimbursement	\$ <u>37</u>	<u>453</u>	<u>478,735</u>
Due to affiliates:			
LMA	\$ 1,	839	1,968
RMI	32,	860	34,667
LMRFA			35,266
	\$ <u>34</u> ,	<u>699</u>	71,901

The Fund changed its reinsurer in 1995 as described in note 5.

(b) Premium Rebates

For the year ended December 31, 1993, LMA's Board of Directors resolved to rebate \$420,000 of excess earned fees from other LMRMA funds for 1992 to member municipalities of the Fund. These rebates were taken in the form of credits towards the municipalities' 1994 earned normal premium payments. The \$420,000 was paid to LMRMA Accident and Health Fund prior to December 31, 1993 and is included in unearned premium at December 31, 1993 and earned premium in 1994.

During 1994, LMA's board resolved to rebate \$500,000 of 1993's excess earned fees back to the municipalities in the form of credits toward their 1995 earned normal premium payments. The \$500,000 was paid to the Fund prior to December 31, 1994 and is included in unearned premium at December 31, 1994 and earned premium in 1995.

During 1995, LMA's board resolved to rebate \$300,000 of 1994's excess earned fees back to the municipalities in the form of credits toward their 1996 earned normal premium payments. The \$300,000 was paid to the Fund prior to December 31, 1995 and is included in unearned premium at December 31, 1995.

(Continued)

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Notes to Financial Statements

(3) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1995 and 1994:

	<u>1995</u>	<u>1994</u>
	(Amounts in	thousands)
Unpaid claims and claim adjustment expenses at beginning of year Incurred claims and claim adjustment	\$ 2,075	2,133
Incurred claims and claim adjustment expense-provision for insured events	_9,164	8,939
Total incurred claims and claims adjustment expense	11,239	11,072
Less payments - claims and claim adjustment expenses	<u>(8,937</u>)	<u>(8,713</u>)

Total unpaid claims and claim adjustment expenses at end of year	2,302	2,359
Less claims covered by reinsurer	(37)	(284)
Unpaid claims reserve	\$ 2,265	2,075

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

(4) Deposits and Investments

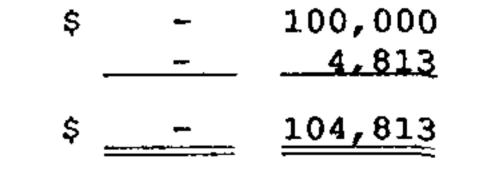
The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these agencies shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits 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 Agency is in compliance with these revised provisions as of and during the period ended December 31, 1995 and 1994.

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.

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<u>1995 1994</u>

Insured Uninsured



Notes to Financial Statements

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. 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.

	199	5	1994		
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>	<u>Category</u>
Repurchase agreement	\$ 2,154,152	2,154,152	1,991,612	1,991,612	2 1
Certificates of deposit insured	- 100,000	100,000	100,000	100,000) –
Money market accounts U.S. Governmer	13,631 nt	13,631	1,643	1,643	3 -
Obligations	259,840	264,928	259,024	246,680	2 I
	\$ <u>2,527,623</u>	2,532,711	2,352,279	2,339,94	

The Fund's investments are categorized below as of December 31:

The repurchase agreement and certificates of deposit are collateralized by obligations of the U.S. Government, registered in the name of and held by the Fund's agent.

Unrealized gross gains and losses were as follows as of December 31:

	<u>1995</u>	<u>1994</u>
Gross unrealized gains	\$ <u>5,089</u>	

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Gross unrealized losses



Notes to Financial Statements

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

	19	95	19	94
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>
Due in one year Due after one year through five	\$ 2,267,783	2,267,783	2,093,255	2,093,255
years Due after ten	259,840	264,928	-	_
years	<u> </u>		259,024	246,686
	\$ <u>2,527,623</u>	2,532,711	2,352,279	<u>2,339,941</u>

(5) <u>Reinsurance Policy Coverage</u>

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.

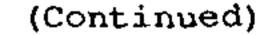
During the period ended December 31, 1995, the Fund obtained reinsurance from a commercial insurer to provide the following coverage:

- Item I: Annual aggregate in excess of 125% of annual aggregate retention.
- 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. No claims for reinsurance are outstanding from LMRFA as of December 31, 1995.

During the year ended December 31, 1994 and prior years, LMRFA provided reinsurance to the Fund with the following aggregate:

- Item I: Annual aggregate in excess of 125% of annual aggregate retention (85% of earned normal premium), limited to a minimum of aggregate earned normal premium.
- Item II: \$950,000 each and every loss in excess of \$50,000 each and every loss.



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Notes to Financial Statements

The following is the balance sheet for LMRFA as of December 31, 1994:

<u>Assets</u>

Cash and cash equivalents	\$	786,969
Accrued interest receivable		133,578
Due from affiliates		229,445
Investments	<u>2</u> (0,665,077

\$ 21,815,069

Liabilities and Fund Balance

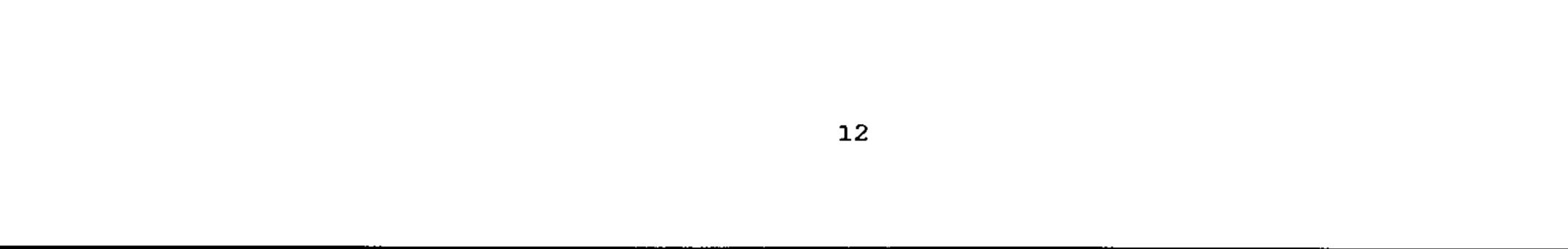
Liabilities:	
Unpaid claims reserve	\$ 14,611,095
Unearned premium	39,879
Accrued expense	3,649
	14,654,623
Fund balance	7,160,446
	\$ <u>21,815,069</u>

(6) Fund Balance Deficit

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As of December 31, 1995, the Fund had an accumulated deficit of \$20,418. Management's plans for eliminating the deficit are to review premium assessments and to consider an additional reimbursement of administrative fees from LMA to the Fund.



KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Report on Internal Control Structure 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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing

standards and 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.

The management of Louisiana Municipal Risk Management Agency - Accident and Health Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting Because of inherent limitations in any internal control principles. structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control

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structure. Accordingly, we do not express such an opinion.

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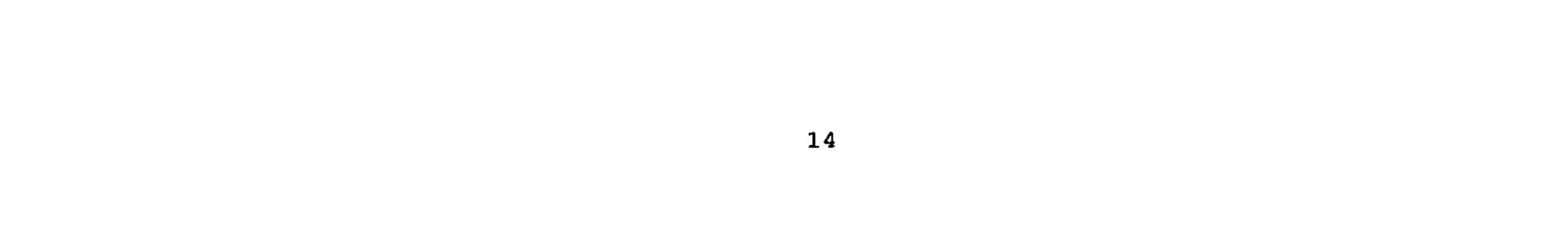
Member Area of Hydydia Pisst Miewick Garadefer Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Accident and Health Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Manuitale LLP

April 5, 1996

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KPMG Peat Marwick IIP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Compliance Report Based on 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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations and contracts applicable to Louisiana Municipal Risk Management Agency - Accident and Health Fund is the responsibility of Louisiana Municipal Risk Management Agency - Accident and Health Fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Municipal Risk Management Agency - Accident and Health Fund's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Accident and Health Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

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April 5, 1996

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY PUBLIC LIABILITY FUND

Financial Statements and Schedule

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

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Compliance Report Based on Audit of Financial Statements

Performed in Accordance with Government Auditing Standards

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Independent Auditors' Report

Officers and Trustees Louisiana Municipal Risk Management Agency Public Liability Fund:

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report, dated April 5, 1996, on our consideration of the Fund's internal control structure and a report, dated April 5, 1996, on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule is presented for purposes of additional analysis and is not a

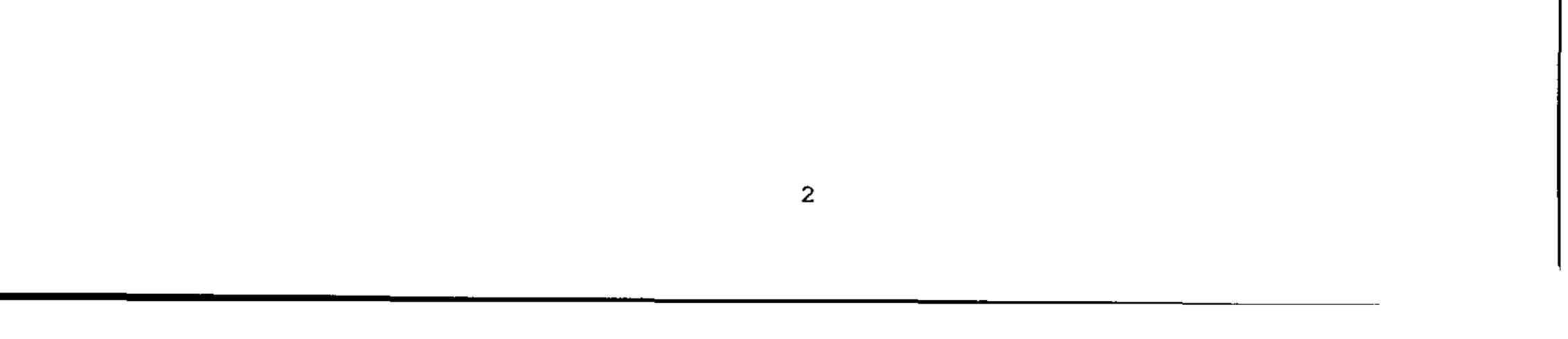
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Member Finand Riyava a Prat Maswak Garadi ya required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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April 5, 1996

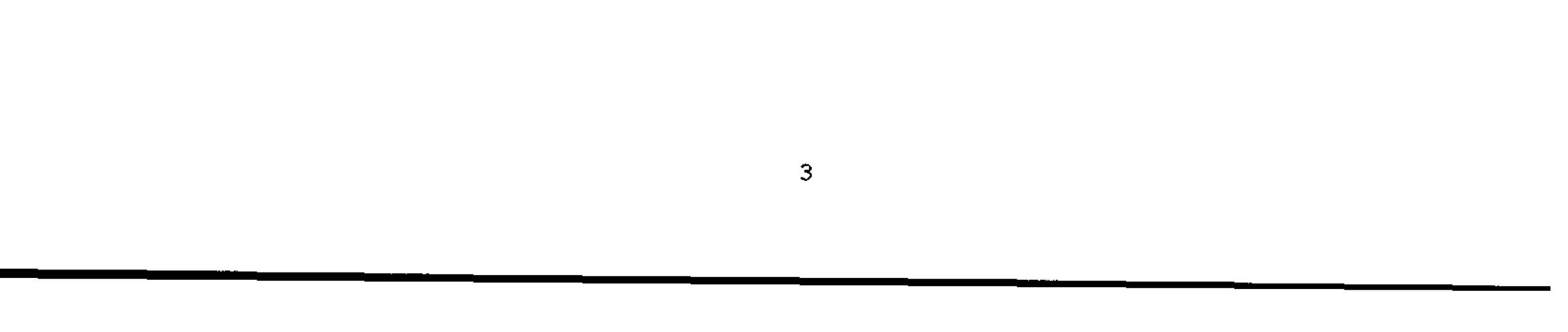


Balance Sheets

December 31, 1995 and 1994

Assets	<u>1995</u>	<u>1994</u>
Cash (note 4)	\$ 2,531,627	98,683
Investments (note 4)	11,348,262	12,157,943
Deductibles receivable	273,333	-
Accounts receivable	97,758	71,805
Accrued interest receivable	122,615	105,592
Note receivable (note 2)	2,606,845	2,904,356
	\$ <u>16,980,440</u>	<u>15,338,379</u>
Liabilities and Fund Balance		
Liabilities:		
Unpaid claims liability (note 3)	9,247,464	9,477,999
Unearned premium (note 2)	1,926,728	2,164,612
Due to affiliates (note 2)	1,231,491	533,350
Accrued expenses	1,120	<u> 1,273</u>
	12,406,803	12,177,234
Fund balance	<u>4,573,637</u>	3,161,145
	\$ 16,980,440	<u>15,338,379</u>

See accompanying notes to financial statements.



Statements of Revenues, Expenses and Changes in Fund Balance

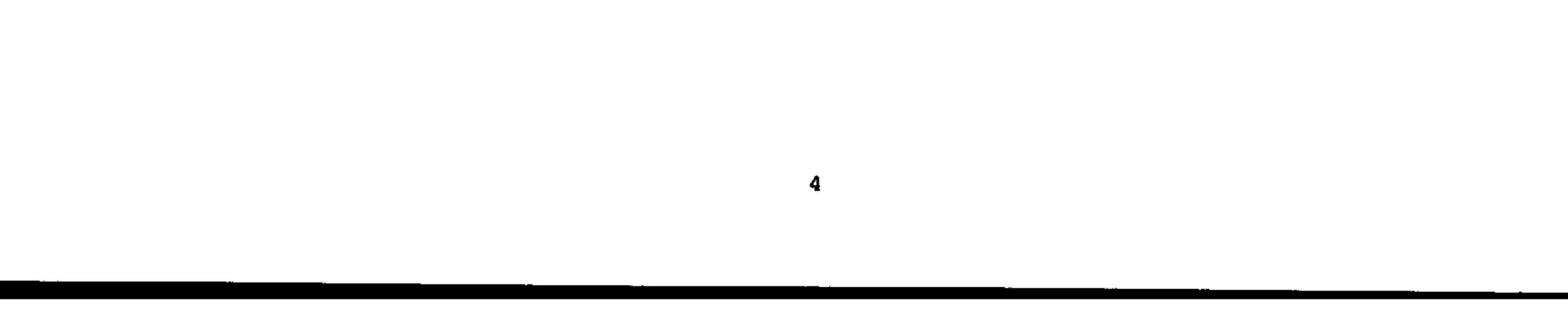
Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Revenues:	· .	
Premium income	\$ 6,515,802	6,105,888
Investment income (note 2)	1,088,966	1,073,063
Refund of administrative fees (note 2(c))	334,945	
Total revenue	<u>7,939,713</u>	<u>7,178,951</u>
Expenses:		
Administrative fees (note 2)	1,219,282	1,195,398
Claims expense (note 3)	3,151,217	4,396,874
Reinsurance premiums (note 2)	1,596,371	1,495,943
Service agent (note 2)	553,843	519,000
Miscellaneous	6,508	2,548
Total expenses	<u>6,527,221</u>	7.609.763

Excess (deficiency) of revenues over expenses	1,412,492	(430,812)
Fund balance, beginning of year	3,161,145	<u>3,591,957</u>
Fund balance, end of year	\$ <u>4,573,637</u>	3,161,145

See accompanying notes to financial statements.

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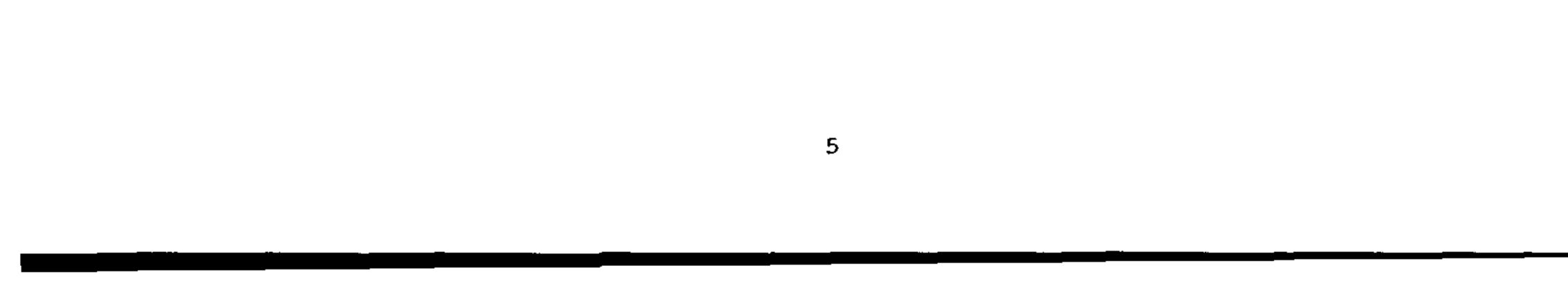
Statements of Cash Flows

Years ended December 31, 1995 and 1994

-	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Excess (deficiency) of operating revenues		
over expenses	\$ 1,412,492	(430,812)
Less adjustment for investment interest	(<u>1,088,966</u>)	(<u>1,073,063</u>)
	323,526	(<u>1,503,875</u>)
Adjustments to reconcile excess (deficiency)		
of operating revenues over expenses to net		
cash provided (used in) by operations:		
Discount earned on investments		(96,952)
(Increase) decrease in receivables	(299,285)	50,152
Increase (decrease) in unpaid claims reserve	• • •	222,999
Increase in accrued expenses, unearned	(2007,0007)	
premiums and due to affiliates	460.104	246,606
brearing and due co arrittaces	<u> </u>	

Total adjustments	<u>(69,716</u>)	422.805
Net cash provided by (used in) operating activities	253,810	(<u>1,081,070</u>)
Cash flows from investing activities: Purchase of investments Sale/maturity of investments Investment interest received Issuance of note receivable Principal payments from note receivable	(2,028,323) 2,838,003 1,071,943 - 	(3,335,251) 3,373,254 1,051,501 (53,842) <u>46,044</u>
Net cash provided by investing activities	<u>2,179,134</u>	1,081,706
Net increase in cash	2,432,944	636
Cash, beginning of year	98,683	98,047
Cash, end of year	\$ <u>2,531,627</u>	98,683

See accompanying notes to financial statements.



Notes to Financial Statements

December 31, 1995 and 1994

(1) <u>Significant Accounting Policies</u>

(a) <u>Background and Financial Statement Presentation</u>

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

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

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Notes to Financial Statements

pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncement.

(c) <u>Investments</u>

Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government agency obligations and are held for long-term investment purposes. U.S. government agency obligations are stated at amortized cost unless there is a decline in value that is considered other than temporary, in which case the carrying amount is reduced to market value. Management has the interest and ability to hold investments; therefore, no realized losses are anticipated.

(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) <u>Unpaid Claims Liability</u>

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing the 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 reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liability are charged or credited to expense in the periods 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 claim losses and claim expenses are presented at present value in the financial statements. Such reserves have been discounted at 6.6% at both December 31, 1995 and 1994.

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Notes to Financial Statements

(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 (see note 4).

(g) <u>Reinsurance</u>

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

(i) <u>Use of Estimates</u>

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.

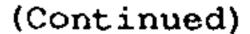
- (2) <u>Related Party Transactions</u>
 - (a) Fees and Services

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 as follows:

	<u>1995</u>	<u>1994</u>
Expenses:		
Administrative fee - LMA (2% of ENP plus interest earned)	\$ <u>1,219,282</u>	1,195,398
Service agent - RMI (8.5% of ENP)	\$ 553,843	
Reinsurance - LMRFA (24.5% of ENP)	\$ 1,596,371	1,495,943

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Notes to Financial Statements

	<u>1995</u>	<u>1994</u>
Due to (from) affiliates:		
LMA	\$ 971,014	947,130
RMI	49,543	22,700
LMRFA	180,905	(436,480)
	1,201,462	533,350
Reinsurance premium due to LMRFA	30,029	
Due to(from) affiliate, net	\$ <u>1,231,491</u>	<u> </u>

LMA also 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.

(b) Note Receivable

LMA has a variable rate note agreement with the Fund. The original

balance of the note at September 1, 1992 was \$2,935,940 (\$10,217 and \$64,060 of the \$3,000,000 note has not been utilized as of December 31, 1995 and 1994) and bears an interest rate equal to the average investment return yielded the Fund on its other investments (6.43% and 6.88% at December 31, 1995 and 1994, 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 \$185,676 and \$199,051 in respect to the note for the years ended December 31, 1995 and 1994, respectively.

The payments on principal balance due at December 31, 1995 of \$2,606,845 are scheduled as follows:

1996	\$ 79,123
1997	84,363
1998	89,951
1999	95,908
2000	102,260
2001 and after	2,155,240

\$ 2,606,845

(c) Premium Rebates

For the year ended December 31, 1993, LMA's Board of Directors resolved to rebate \$586,664 of 1992's earned administrative fees to member municipalities of the Fund. On a prorata basis, the Fund applied this rebate against 1994 earned normal premium payments of the municipalities. The \$586,664 was paid to the Fund prior to

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Notes to Financial Statements

December 31, 1993 and was included in unearned premium at December 31, 1993. As of December 31, 1994, \$528,948 had been applied to premium payments.

During 1994, LMA's Board resolved to rebate an additional \$597,118 of 1993's earned administrative fees back to the municipalities in the form of credits towards their 1995 earned normal premium payments. The \$597,118 was paid to the Fund prior to December 31, 1994 and is included in unearned premiums at December 31, 1994; \$588,063 of cumulative credits has been applied to earned premium for the year ended December 31, 1995.

During 1995, LMA's Board resolved to rebate \$669,890 of 1994's earned administrative fees back to the Fund to be used as follows:

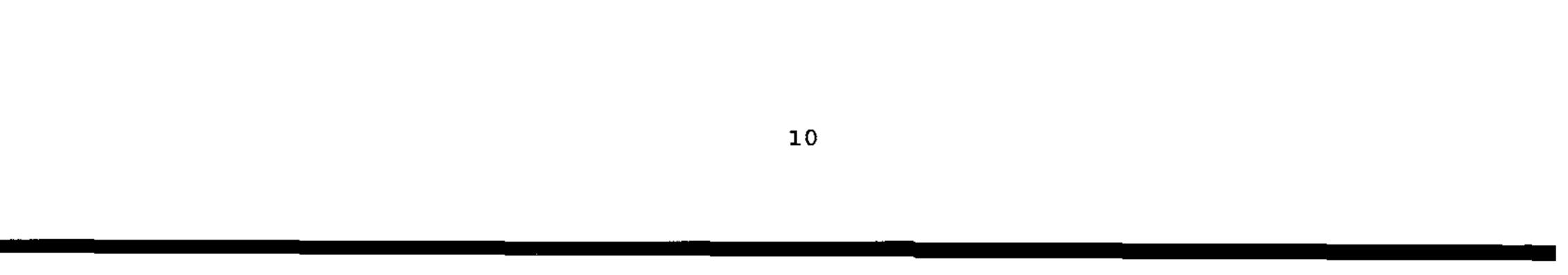
\$334,945 to be used by municipalities in the form of credits toward their 1996 earned normal premium payment; this amount is included in unearned premiums at December 31, 1995.

\$334,945 to be accumulated and retained by the Fund for reserves in future years; this amount is included in refund of administrative fees.

(3) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1995 and 1994:

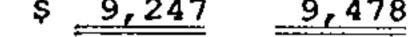
	<u>1995</u>	<u>1994</u>
	(Amounts in	thousands)
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>21,125</u>	17,891
Incurred claims and claim adjustment expenses: Provision for insured events of the current		
year Increase (decrease) in provision for	7,071	7,311
insured events of prior years	<u>(1,962</u>)	<u>1,694</u>
Total incurred claims and claims adjustment expense	<u>5,109</u>	<u>9,005</u>



Notes to Financial Statements

	<u>1995</u>	<u>1994</u>
	(Amounts	in thousands)
Payments:		
Claims and claim adjustment expenses		
attributable of insured events		
of current year	\$ 46	528
Claims and claim adjustment expenses		
attributable to insured events		
of prior years	4,69	<u>4 5,243</u>
Total payments	_5,15	7 <u>5.771</u>
Total unpaid claims and claim		
adjustment expenses at end of year	21,07	7 21,125
Less discounting at 6.6% for 1995 and 1994	(4,08	(3,892)
Less claims covered by reinsurer (net of		
discount)	.(7,74	7) <u>(7,755</u>)
Monsid claims magazine	e 0.2/	0 470

Unpaid claims reserve



In addition to the unpaid claims covered by the reinsurer, there are \$30,029 of excess paid claims which are due to the reinsurer at December 31, 1995 and \$4,536 of paid claims due from the reinsurer for claims prior to 1986. At December 31, 1994, \$540,010 of paid claims were recoverable from the reinsurer.

(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 Agency is in compliance with these revised provisions during the years ended December 31, 1995 and 1994.

The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those

(Continued)

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Notes to Financial Statements

balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance or pledged collateral.

-	<u>1995</u>	<u>1994</u>
Insured	\$ 2,531,627	98,683
Uninsured		<u> </u>
	\$ <u>2,531,627</u>	98,683

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, unrealized gains, unrealized losses, market value and category classification for investments as of December 31, 1995 and 1994 are as follows:

	Amortized <u>cost</u>	Unrealized gains	Unrealized <u>losses</u>	Market <u>value</u>	<u>Category</u>
December 31, 1995:					
Certificates of					
deposit	\$200,000	-	-	200,000	-
Money market accounts	650,734	-	-	650,734	-
U.S. Government and					
Agency Obligations:					
Mortgage-backed	•				
securities	2,412,389	17,798	(27,606)	2,402,581	1
U.S. Treasury					
securities	<u>8,085,139</u>	161.037	(101,944)	<u>8,144,232</u>	1
	\$ <u>11,34</u> 8,262	178,835	(129,550)	11,397,547	



Notes to Financial Statements

		ed Unrealized		Market	
D D D D D D D D D D	cost	<u>gains</u>	losses	<u>value</u>	<u>Category</u>
December 31, 1994:					
Certificates of					
deposit	\$ 599,0	i00	-	599,000	-
Money market accounts	273,4	27 -		273,427	
Repurchase agreements	775,9	- 61	-	775,961	1
U.S. Government and					
Agency Obligations:					
U.S. Treasury					
securities	3,486,5	56 735	(367,957)	3,119,334	1
Mortgage-backed	, ,		(-,,	-
securities	6,724,2	- 13	(755,910)	5,968,303	1
Obligations of	-,,-		(,,	-,,	-
state and					
political					
subdivisions	200 7	96 1 060	114 1211	205 724	1
DUIVITA TOTOUD	298,7	86 1,069	(14,131)	285,724	T
			// ···		
	\$ 12,157,9	43 1,804	(<u>1,137,998</u>)	11,021,749	

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, 1995 and 1994 are derivative investments. As of December 31, 1995, these investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a cost of \$5,148,092 and a market value of \$4,992,484. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

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

	199	95	199	4
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>
Due in one year Due after one year	\$ 1,151,716	1,154,561	1,701,084	1,698,388
through five years Due after five years	4,505,109	4,578,819	3,173,229	3,033,521
through ten years	1,314,799	1,321,815	1,330,042	1,209,905
Due after ten years	4,376,638	<u>4,342,352</u>	<u>5,953,588</u>	5,079,935
	\$ <u>11,348,262</u>	11,397,547	12,157,943	<u>11,021,749</u>



Notes to Financial Statements

(5) <u>Reinsurance Policy Coverage</u>

During the periods ended December 31, 1995 and 1994, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following aggregate:

- \$5,000,000 annual aggregate excess of 65% of earned normal Item I: premium
- \$500,000 each and every loss in excess of \$100,000 each Item II: and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. At December 31, 1995 and 1994, there were 201 and 194 participating municipalities, respectively. 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.

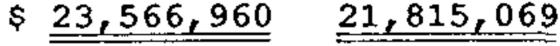
The following are balance sheets for LMRFA for the years ended December 31, 1995 and 1994:

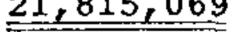
<u>Assets</u>		
	<u>1995</u>	<u>1994</u>
Cash and cash equivalents \$ Accrued interest receivable Due from affiliates Investments	100,380 170,275 289,102 <u>23,007,203</u>	786,969 133,578 229,445 <u>20,665,077</u>

\$ 23,566,960	<u>21,815,069</u>

Liabilities and Fund Balance

Liabilities: Unpaid claims reserve Unearned premium Accrued expense	\$ 15,296,160 46,663 <u>174,476</u>	14,611,095 39,879 <u>3,649</u>
	15,517,299	14,654,623
Fund balance	8,049,661	7,160,446





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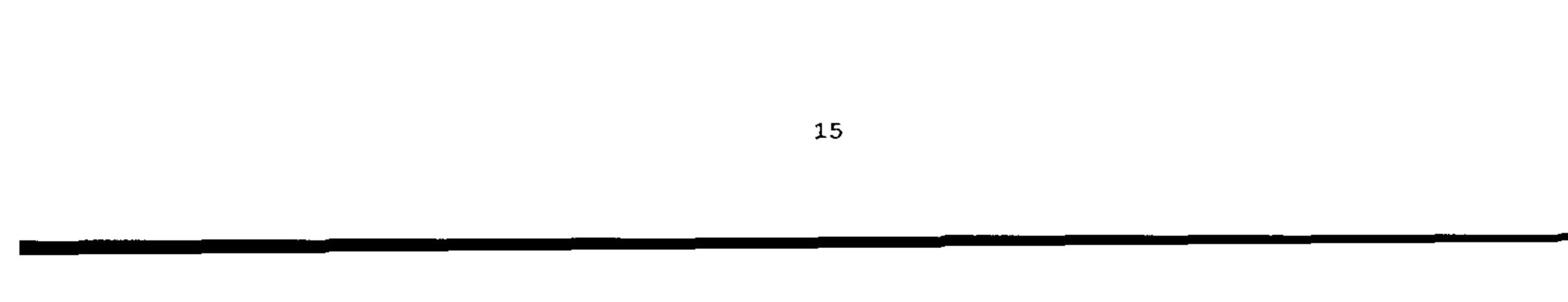
Schedule

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY PUBLIC LIABILITY FUND

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 1995 and as of the end of each of the last eight years.

	Fund Year Ended							
	1995	<u>1994</u>	1993	_		<u>1990</u>	<u>1989</u>	<u>1988</u>
				(in	thousa	nds)		
ENP and investment income	\$ <u>7,605</u>	<u>7,179</u>	<u>7,170</u>	<u>7,179</u>	<u>6,890</u>	<u>6,789</u>	<u>6,600</u>	<u>6,062</u>
Operating costs unallocated	\$ <u>3,397</u>	<u>3,213</u>	<u>3,247</u>	<u>3,031</u>	<u>3,062</u>	<u>2,991</u>	2,921	<u>2,513</u>
Estimated incurred claims and expense, end of policy year		<u>3,976</u>	<u>3,930</u>	<u>4,003</u>	<u>3,843</u>	<u>3,814</u>	<u>3,799</u>	<u>3,382</u>

Paid (cumulative) as of: End of policy 341 424 479 337 415 \$ 409 463 528 year 1,258 1,081 931 984 1,625 1,105 1,249 One year later -1,492 1,750 2,668 2,007 1,802 2,019 Two years later _ _ 3,297 2,613 2,258 2,474 2,556 _ Three years later -2,841 2,516 2,752 2,721 Four years later 3,129 2,712 2,946 Five years later -----_ 3,329 2,826 — -Six years later _ 2,772 -Seven years later Re-estimated incurred claims and claims expense: End of policy \$ 4,243 3,976 3,930 4,003 3,843 3,814 3,799 3,382 year 3,799 3,613 3,814 3,976 3,930 4,037 3,843 One year later 3,685 3,133 3,814 4,037 3,877 3,930 Two years later 3,604 3,629 4,037 3,877 3,829 Three years later _ -3,829 3,804 3,425 3,877 Four years later -3,804 3,654 3,829 ----Five years later --3,804 3,654 ----Six years later ----3,654 Seven years later Increase in estimated incurred claims and expense from end of policy 272 34 <u>15</u> 34 \$ year



KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Report on Internal Control Structure 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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of Louisiana Municipal Risk Management Agency - Public Liability Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting Because of inherent limitations in any internal control principles. structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

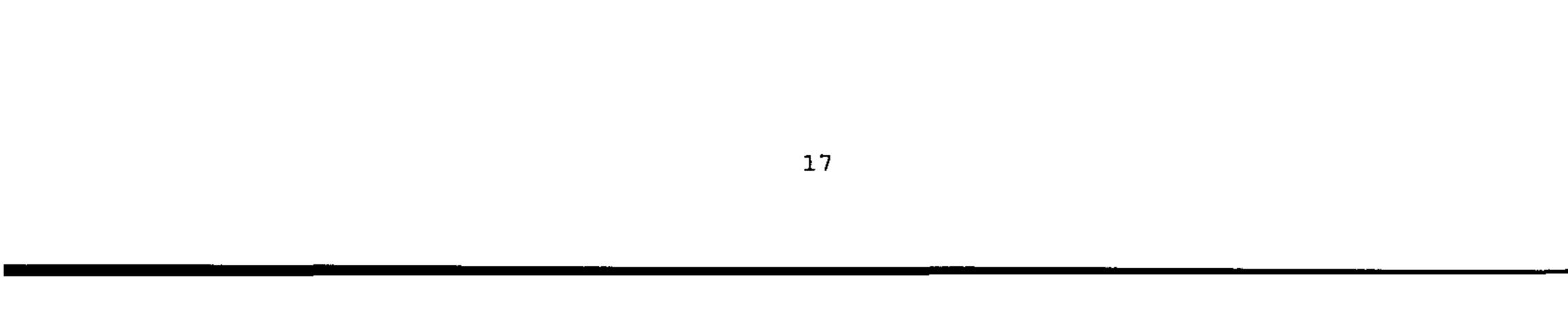
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Minuber Arm of Nyovi b Pest Matwork Goleoidu Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Public Liability Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KMG Pat Mannick LLP

April 5, 1996



KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

<u>Compliance Report Based on Audit of Financial Statements</u> <u>Performed in Accordance with Government Auditing Standards</u>

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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations and contracts applicable to Louisiana Municipal Risk Management Agency - Public Liability Fund is the responsibility of Louisiana Municipal Risk Management Agency - Public Liability Fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Municipal Risk Management Agency - Public Liability Fund's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Public Liability Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KAMG Par Marwich, LIP

April 5, 1996

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Financial Statements and Schedule

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December 31, 1995 and 1994

With Independent Auditors' Report Thereon

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 5, 1996 on our consideration of the Fund's internal control structure and a report dated April 5, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule 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 taken as a whole.

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April 5, 1996

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Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Cash (note 4)	\$ -	105,509
Investments (note 4)	16,828,020	- +
Accounts receivable	1,004,274 826,008	1,023,676 300,929
Due from reinsurer (note 3) Accrued interest receivable	124,400	98,402
	\$ <u>18,782,702</u>	16,102,708
Liabilities and Fund Balance		
Liabilities:		
Unpaid claims liability (note 3)	8,765,000	8,908,929
Due to affiliates (note 2)	1,284,320	1,045,829
Unearned premium (note 2)	1,235,466	1,492,916
Accrued expenses	<u>479,890</u>	203,403

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11,651,077	11,764,676	
4,451,631	7,018,026	
16,102,708	18,782,702	\$

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See accompanying notes to financial statements.

Fund balance

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Statements of Revenues, Expenses and Changes in Fund Balance

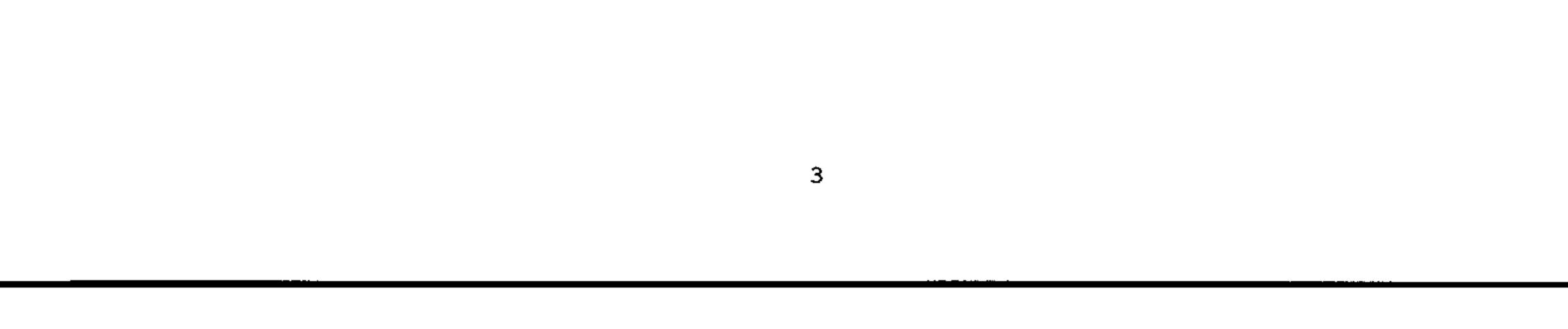
Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Revenues:		
Premium income	\$ 8,275,180	8,606,488
Investment income (note 2)	1,231,019	962,505
Refund of administrative fees (2(b))	315,055	<u> </u>
Total revenue	9,821,254	<u>9,568,993</u>
Expenses:		
Claims expense (note 3)	3,875,489	5,689,193
Administrative fees (note 2)	1,433,761	1,173,364
Reinsurance premiums (note 2)	827,518	860,649
Service agent fees (note 2)	624,776	649,790
Second injury fund assessment	304,256	236,678
Louisiana workers' compensation assessment	133,939	61,965
Miscellaneous	55,120	7,917

Total expenses	<u>7,254,859</u>	<u>8,679,556</u>
Excess of revenues over expenses	2,566,395	889,437
Fund balance, beginning of year	4,451,631	3,562,194
Fund balance, end of year	\$ <u>7,018,026</u>	4,451,631

See accompanying notes to financial statements.

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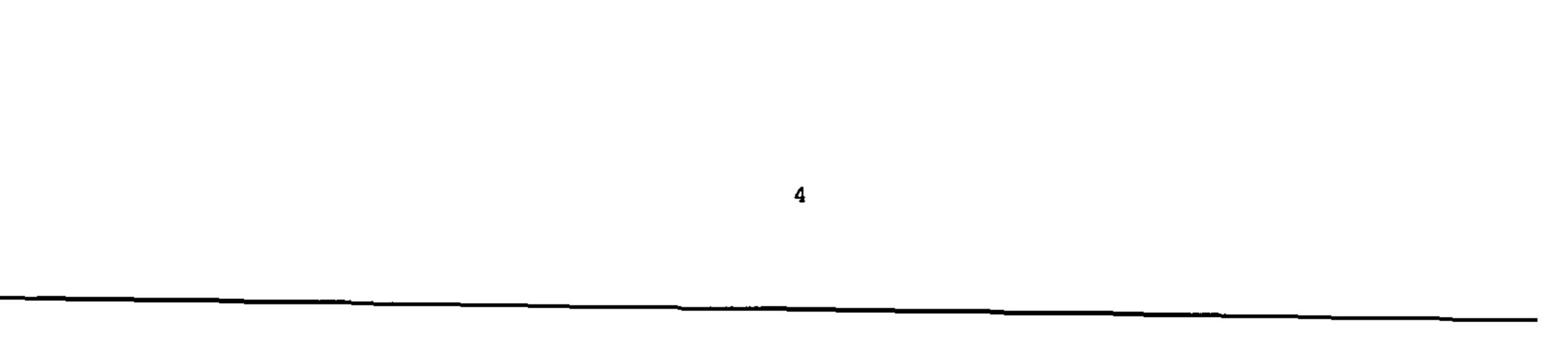
Statements of Cash Flows

Years ended December 31, 1995 and 1994

	<u>1995</u>	1994
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 2,566,395	889,437
Less adjustment for investment interest	(1, 231, 019)	(962,505)
	1,335,376	(73,068)
Adjustments to reconcile excess of revenues		
over expenses to net cash provided by		
operations:		
Increase in receivables	(505,677)	(163,339)
(Decrease) increase in unpaid claims		
reserve, net of reinsurance	`	
receivable	(143,929)	933,929
Increase in accounts payable, accrued		-
expenses, unearned premiums and		
due to affiliates	257,528	435,446

Total adjustments	<u>(392,078</u>)	1,206,036
Net cash provided by operating activities	943,298	<u>1,132,968</u>
Cash flows from investing activities: Investment interest received, net of discounts earned on investments of \$382,740 and \$147,896 in 1995 and 1994, respectively Purchase of investments Sale of investments	1,205,021 (4,076,076) <u>1,822,248</u>	801,204 (5,071,599) <u>3,131,423</u>
Net cash used in investing activities	(<u>1,048,807</u>)	(<u>1,138,972</u>)
Net decrease in cash	(105,509)	(6,004)
Cash, beginning of year	105,509	
Cash, end of year	\$	105,509

See accompanying notes to financial statements.



Notes to Financial Statements

December 31, 1995 and 1994

(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 In accordance with Revised Statutes its member organizations. 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.

The various LMRMA Funds, LMA and LMRMA 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

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Notes to Financial Statements

pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

(c) <u>Investments</u>

Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government agency obligations and are held for long-term investment purposes. U.S. government agency obligations are stated at amortized cost unless there is a decline in value that is considered other than temporary, in which case the carrying amount is reduced to market value.

(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, acquisition costs, are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 6.6% at both December 31, 1995 and 1994.

(f) <u>Statement of Cash Flows</u>

For the purposes of the statement of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of

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Notes to Financial Statements

deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.

(g) <u>Reinsurance</u>

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 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) <u>Income Taxes</u>

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

(i) <u>Use of Estimates</u>

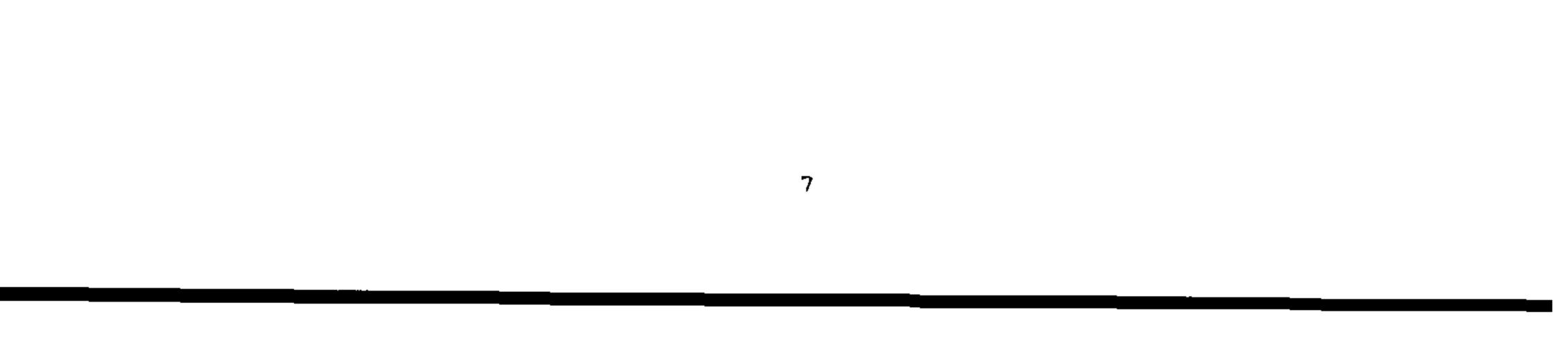
Management of the Funds has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) <u>Related Party Transactions</u>

(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>1995</u>	<u>1994</u>
Expenses:		
Administrative fee - LMA (2.45% of ENP plus interest earned)	\$ <u>1,433,761</u>	<u>1,173,364</u>
Service Agent - RMI (7.55% of ENP)	\$ 624,776	649,790
Reinsurance - LMRFA (10% of ENP)	\$ 827,518	860,649
Due from reinsurer LMRFA (note 3)	\$ <u>798,588</u>	300,929



Notes to Financial Statements

	<u>1995</u>	<u>1994</u>
Due to affiliate:		
lma	\$ 1,151,359	890,962
RMI	54,794	64,218
LMRFA	78,167	90,649
	\$ <u>1,284,320</u>	1,045,829
LMRFA reinsurance recoveries	\$ <u>816,519</u>	631,368

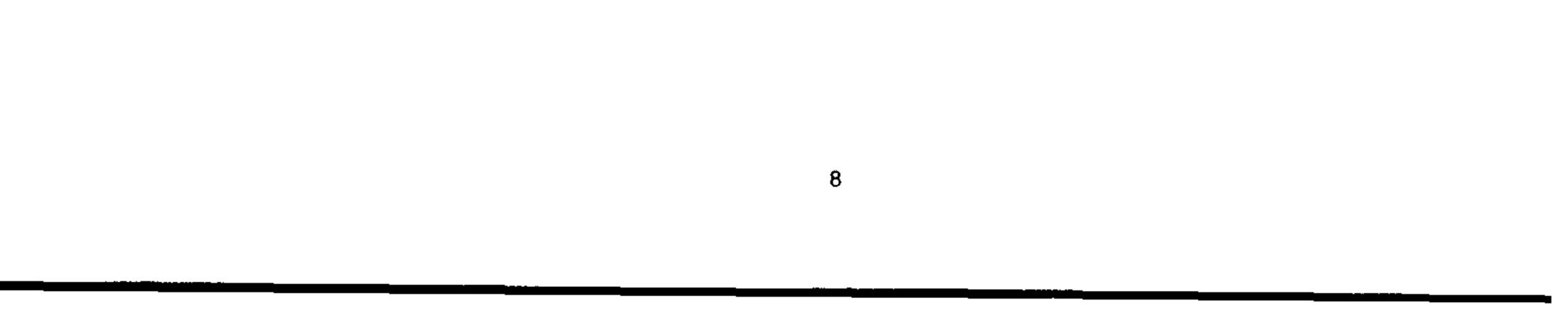
LMA also receives all interest earnings of LMRMA as part of this administrative fee. Amounts have been returned by LMA to the Fund based on the Board's discretion.

(b) Premium Rebates

For the year ended December 31, 1993, LMA's Board of Directors resolved to rebate \$586,663 of 1992's earned administrative fees to member municipalities of the Fund. On a prorata basis, LMRMA applied this rebate against 1994 earned normal premium payments of the municipalities. The \$586,663 was paid to the Fund prior to December 31, 1993 and is included in unearned premiums at December 31, 1993. As of December 31, 1994, \$362,567 had been applied to earned premiums.

During 1994, LMA's Board resolved to rebate \$791,528 of 1993's earned administrative fees back to the municipalities in the form of credits towards their 1995 earned normal premium payments. The \$791,528 was paid to the Fund prior to December 31, 1994 and is included in unearned premiums as of December 31, 1994; a portion of this amount was used by the municipalities and is included in earned premiums in the year ended December 31, 1995.

During 1995, LMA's Board resolved to rebate \$630,110 of 1994's earned administrative fees back to the Fund; of the total amount, \$315,055 is available to the municipalities in the form of credits toward their 1996 earned normal premium payments and is included in unearned premiums as of December 31, 1995. The remaining \$315,055 is to be retained by the Fund to offset future claim losses; this amount is included in revenue in 1995.



Notes to Financial Statements

(3) <u>Claims Expense and Unpaid Claims Reserve</u>

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1995 and 1994:

	<u>1995</u> (Amounts in	<u>1994</u> thousands)
Unpaid claims and claim adjustment expenses at beginning of year - gross	\$ <u>19,183</u>	17,534
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	6,583	7,462
Increase (decrease) in provision for insured events of prior years	619	(762)
Total incurred claims and claims adjustment expense	7,202	6,700

Payments: Claims and claim adjustment expenses		
attributable to insured events of current year Claims and claim adjustment expenses	1,007	819
attributable to insured events of prior years	3,538	4.232
Total payments	4,545	5,051
Total unpaid claims and claim		
adjustment expenses at end of year	21,840	19,183
Less discounting at 6.6% for 1995 and 1994	(6,341)	(4,694)
Less claims covered by reinsurer (net of discount)	<u>(6,734</u>)	<u>(5,580</u>)
Unpaid claims reserve	\$ 8,765	8,909

In addition to the unpaid claims covered by the reinsurers, there are \$826,008 (of which \$798,588 is due from LMRFA) and \$300,929 of paid claims which are recoverable from the reinsurer at December 31, 1995 and 1994, respectively. Settled claims have not exceeded insurance coverage.

(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

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Notes to Financial Statements

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 period ended December 31, 1995 and 1994 and as of December 31, 1995 and 1994.

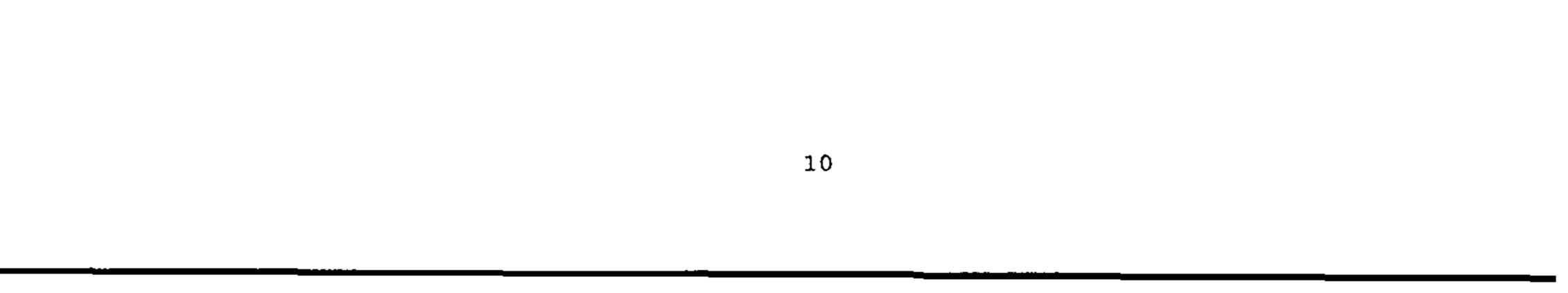
The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance. "Uninsured" deposits are those balances in excess of federal depository insurance.

	<u>1995</u>	<u>1994</u>
Insured	\$ -	100,000
Uninsured		5,509

105,509

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.



Notes to Financial Statements

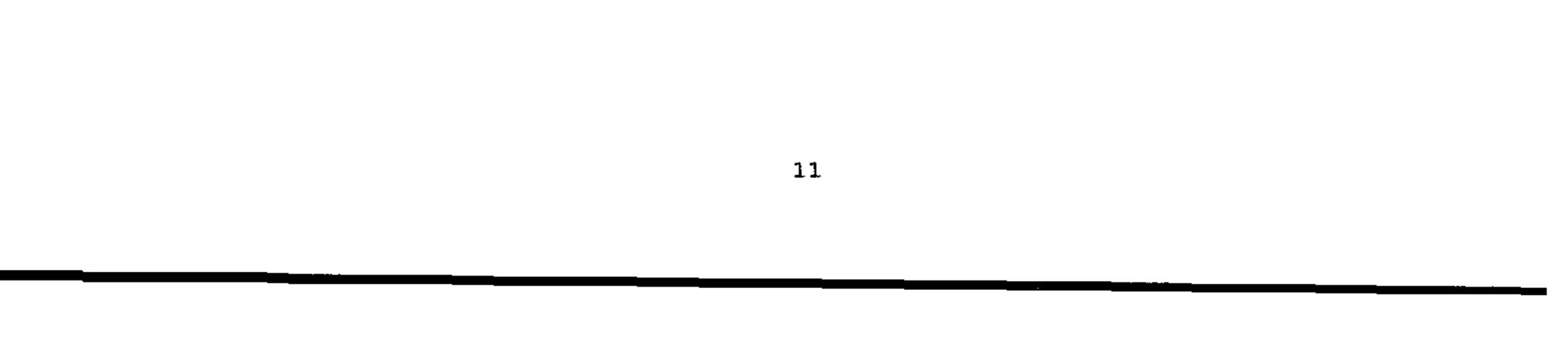
The amortized cost, unrealized gains, unrealized losses and market value for investments by security type at December 31, 1995 and 1994 are as follows:

·	Amortized <u>cost</u>	Unrealized <u>gains</u>	Unrealized <u>losses</u>	Market <u>value</u>	Category
December 31, 1995:					•
Certificates of					
deposit	\$ 300,000	-	-	300,000	-
Money market accounts	491,681	←	-	491,681	-
Repurchase agreements	3,909,807	_	-	3,909,807	1
U.S. Government					
Agency obligations:					
Mortgage-backed					
securities	3,091,689	23,469	(69,250)	3,045,908	1
U.S. Treasury					
securities	9,034,843	177,411	(<u>121, 654</u>)	9,090,600	1
	\$ 16,828,020	200,880	(190,904)	16,837,996	
				<u> </u>	

December 31, 1994:

Certificates of					
deposit	400,000	-	←	400,000	-
Money market accounts	366,961	-	-	366,961	-
Repurchase agreements	2,954,004	←	—	2,954,004	1
U.S. Government					
Agency obligations:					
Mortgage-backed					
securities	6,464,359	-	(592,981)	5,871,378	1
U.S. Treasury					
securities	4,097,608	735	(539,152)	3,559,191	1
Obligations of					
state and					
political					
subdivisions	291,260	710	<u>(13, 417)</u>	278,553	1
	\$ <u>14,574,192</u>	1,445	(1, 145, 550)	13,430,087	

Included in investment balances as of December 31, 1995 and 1994 are derivative investments. As of December 31, 1995, these investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a cost of \$5,219,273 and a market rate of \$4,991,192. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations. Certificates of deposit and money market accounts are collateralized by pledged securities of the Fund's trustee.



Notes to Financial Statements

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

	19	95	1994		
	Carrying <u>amount</u>	Market <u>value</u>	Carrying <u>amount</u>	Market <u>value</u>	
Due in one year Due after one year	\$ 4,953,385	4,954,694	3,773,660	3,770,964	
through five years Due after five years	5,240,713	5,290,553	3,742,371	3,590,368	
through ten years	2,232,234	2,270,487	1,172,120	1,077,339	
Due after ten years	4,401,688	4,322,262	5,886,041	4,991,416	
	\$ 16,828,020	<u>16,837,996</u>	<u>14,574,192</u>	13,430,087	

(6) <u>Reinsurance Policy Coverage</u>

During the periods ended December 31, 1995 and 1994, LMRFA provided reinsurance to the Fund 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 \$450,000

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. At December 31, 1995 and 1994, there were 232 and 237 participating municipalities, respectively. 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, 1995 and 1994.

<u>Assets</u>

	1995	<u>1994</u>
Cash	\$ 100	,380 786,969
Accrued interest receivable	170	,275 133,578
Due from affiliates	289	,102 229,445
Investments	23.007	<u>,203</u> <u>20,665,077</u>

(Continued)

\$ 23,566,960 21,815,069



Notes to Financial Statements

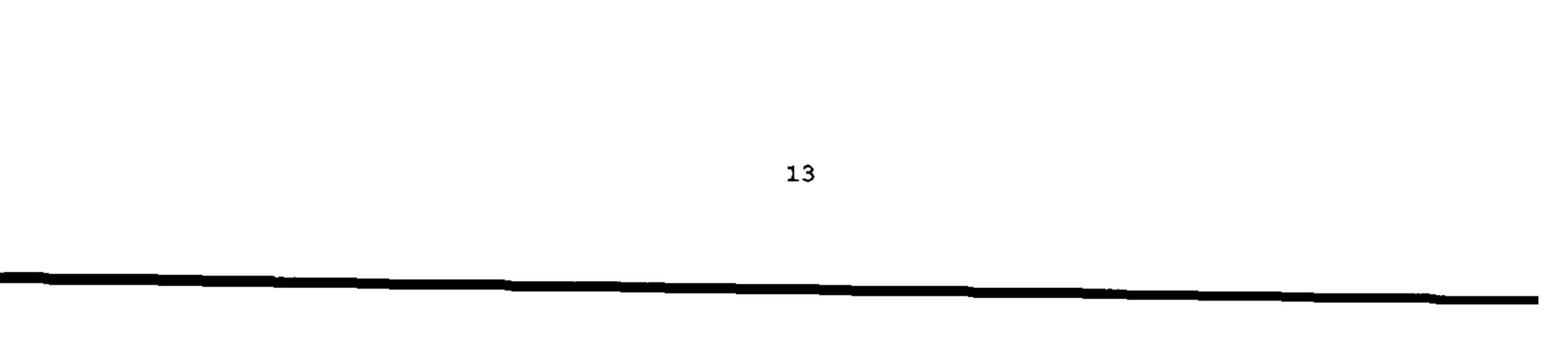
Liabilities and Fund Balance

	<u>1995</u>	<u>1994</u>
Liabilities:	· .	
Unpaid claims reserve	\$ 15,296,160	14,611,095
Unearned premium	46,663	39,879
Accrued expense	174,476	3,649
	15,517,299	14,654,623
Fund balance	8,049,661	7,160,446
	\$ <u>23,566,960</u>	21,815,069

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.

- \$1,000,000 annual aggregate Item I:
- \$1,000,000 each and every loss in excess of Item II: \$50,000 each and every loss up to \$450,000

The third party reinsurer is only responsible for those claims incurred during the year ended December 31, 1995. LMRFA is the reinsurer for 100% of the claims incurred during the years prior to January 1, 1995.



Schedule

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY WORKERS' COMPENSATION FUND

December 31, 1995

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 1995 and as of the end of each of the last eight years.

					Fund Y	<u>ear Ende</u>	d		
		<u>1995</u>	1994	1993	1992	<u>1991</u> ousands)	<u>1990</u>	<u>1989</u>	<u>1988</u>
ENP and invest- ment income	\$	<u>9,506</u>	<u>9,569</u>	<u>9,886</u>	8,572	7,808	<u>6,658</u>	<u>5,759</u>	4,680
Operating costs,	ć	2 200	2 001	2 126	2 520	2,328	2 102	1 022	1 461
unallocated	\$	<u>3,380</u>	<u>2,991</u>	<u>3,136</u>	<u>2,529</u>	21520	2,102	<u>1,922</u>	1,461
Estimated incurred claims and expense, end of									
policy year	\$	<u>6,512</u>	<u>6,352</u>	7,041	<u>5,913</u>	4,678	<u>4,526</u>	<u>3,957</u>	<u>3,212</u>
Paid (cumula- tive) as of: End of policy									
year	Ş	1,007	819	1,033	1,343	1,323	1,576	1,166	713
One year late:	_	-	1,736	•	3,240	2,712	3,342	2,475	1,307
Two years later		~	-	2,611	4,089	3,741	4,157	3,276	1,704
Three years									A A A A
later			-	-	4,472	4,379	4,691	3,749	2,029
Four years later		-		_	_	4,740	5,182	4,227	2,190
Five years		_				4,740	5,102	47227	27290
later		-	-		-	-	5,518	4,499	2,500
Six years							·	-	-
later		-		-	-	-	-	4,720	2,737
Seven years									
later		-	-		-	-		-	2,882
Re-estimated incurred									
claims and claims expense:									
End of									
policy year	\$	6,512	6,352	7,041	5,913	4,678	4,526	3,957	3,212
One year later			6,670	6,770	5,656	5,309	4,825	3,973	2,832

Two years 5,270 3,973 2,168 7,163 5,656 4,825 later -Three years 5,270 6,020 4,744 3,973 2,358 later ----

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Schedule.cont.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY WORKERS' COMPENSATION FUND

Fund Year Ended							
<u>1995</u>	1994	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>
\$ -	_		-	5,270	4,744	3,999	2,537
	_	-	-	-	4,744	3,999	3,633
-	_	-	_		_	3,999	3,633
-	-	-	-	-	_	-	3,633
		100	1 0 7	ΕQQ	21 0	12	421
	\$ - - -	\$	\$ 	<u>1995</u> <u>1994</u> <u>1993</u> <u>1992</u> (in th \$ 	1995 1994 1993 1992 1991 (in thousands) \$ 5,270 	(in thousands) \$ 5,270 4,744 4,744 	1995 1994 1993 1992 1991 1990 1989 (in thousands) - - - 5,270 4,744 3,999 - - - - 5,270 4,744 3,999 - - - - 4,744 3,999 - - - - 4,744 3,999 - - - - 3,999 - - - - 3,999 - - - - - 3,999

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year	v	<u> </u>					
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See accompanying independent auditors' report.

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KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Report on Internal Control Structure 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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audits in accordance with generally accepted auditing standards and 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.

The management of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund for the year ended December 31, 1995, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operations, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

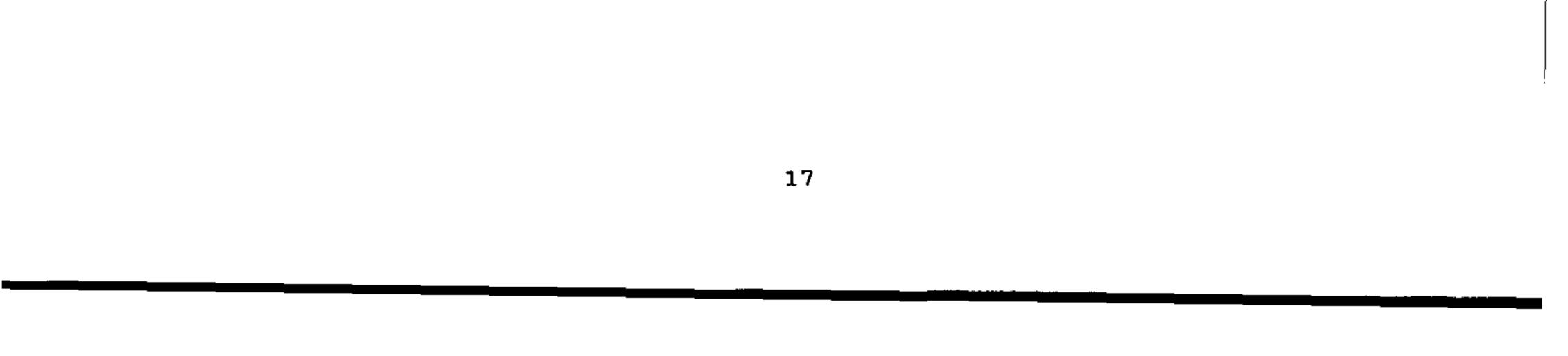
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Member Free of Flyweb Feat Mary, G. Goergeler Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KMG-Pert Namial LIP

April 5, 1996



KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

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<u>Compliance Report Based on Audit of Financial Statements</u> 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, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations and contracts applicable to Louisiana Municipal Risk Management Agency - Workers' Compensation Fund is the responsibility of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KMG Beat Manual LAP

April 5, 1996

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Financial Statements and Schedule

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

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Compliance Report Based on Audit of Financial Statements

Performed in Accordance with Government Auditing Standards

KPMG Peat Marwick LLP

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Independent Auditors' Report

Officers and Trustees Louisiana Municipal Reserve Fund Agency:

We have audited the accompanying balance sheets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 5, 1996 on our consideration of the Fund's internal control structure and a report dated April 5, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule 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 taken as a whole.

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PMG Pat Manitels LLF

April 5, 1996

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Balance Sheets

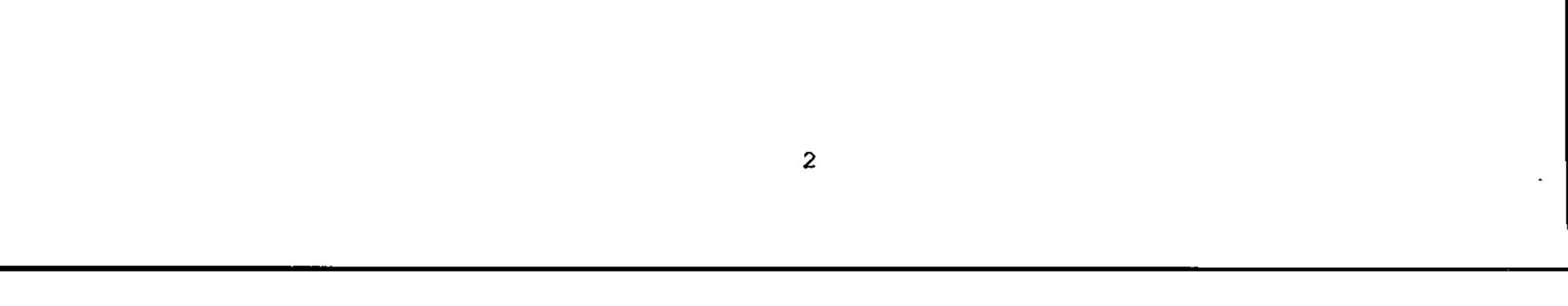
December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	1994
Cash (note 4) Investments (note 4)	\$ 100,38 23,007,20	0 786,969 3 20,665,077
Due from affiliates (note 2)	289,10	2 229,445
Accrued interest receivable	170,27	<u>5 133,578</u>
	\$ <u>23,566,96</u>	<u>21,815,069</u>
Liabilities and Fund Balance		
Liabilities:		
Unpaid claims reserve (note 3)	15,296,16	
Unearned premium	46,66	•
Accrued expenses	174,47	6 3,649

	15,517,299	14,654,623
Fund balance	8,049,661	7,160,446
	\$ <u>23,566,960</u>	21,815,069

See accompanying notes to financial statements.

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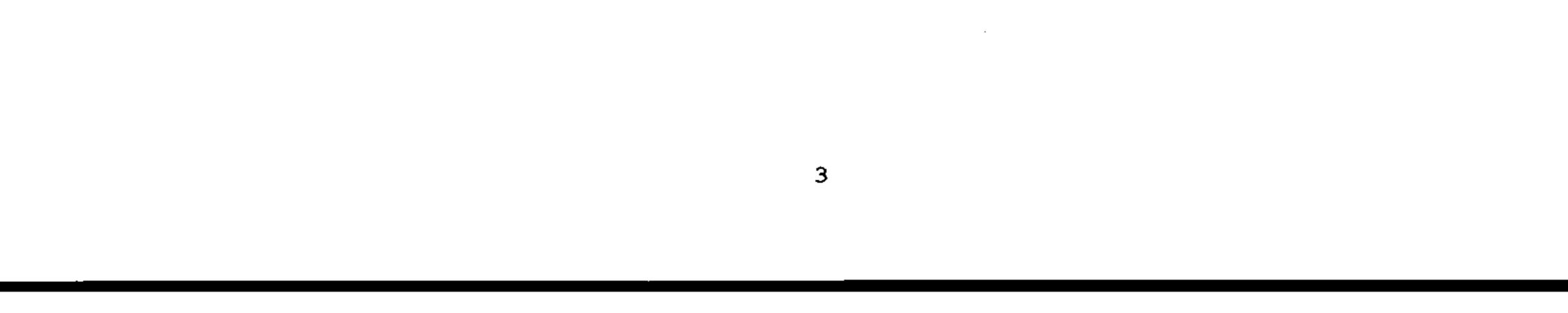
Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Revenues: Premium income (note 2) Investment income	\$ 2,567,352 <u>1,759,797</u>	2,971,438 <u>1,471,666</u>
Total revenue	4,327,149	<u>4,443,104</u>
Expenses: Claims expense (note 3) Reinsurance premium expense Miscellaneous	3,011,023 412,767 <u>14,144</u>	5,436,745 - <u>19,720</u>
Total expenses	3,437,934	<u>5,456,465</u>

Excess (deficiency) of revenues over expenses	889,215	(1,013,361)
Fund balance, beginning of year	7,160,446	8,173,807
Fund balance, end of year	\$ <u>8,049,661</u>	7,160,446

See accompanying notes to financial statements.



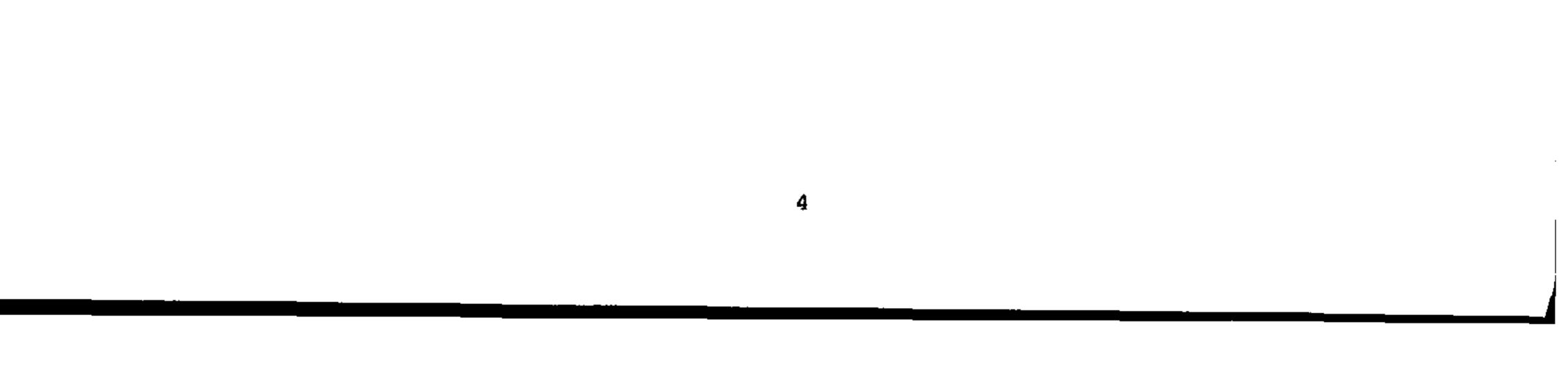
Statements of Cash Flows

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 889,215	(1,013,361)
Less adjustment for investments income	<u>(1,759,797</u>)	(1,471,666)
	<u>(870,582</u>)	(2.485.027)
Adjustments to reconcile excess (deficiency)		
of operating revenues over expenses to net		
cash provided by (used in) operations:		
Increase in due from affiliates	(59,657)	(68,526)
Increase in unpaid claims reserve	685,065	3,342,163
Increase (decrease) in unearned premium		
and accrued expenses	<u>177,611</u>	(2,986)

Total adjustments	803,019	<u>3,270,651</u>
Net cash provided by (used in)		
operating activities	<u>(67,563</u>)	785,624
Cash flows from investing activities:		
Purchase of investments	(9,090,166)	(9,325,500)
Sale/maturity of investments	6,748,040	8,008,776
Investment interest received, net of		
premium accretion of \$528,397 and		
\$232,016 in 1995 and 1994, respectively	1,723,100	1,217,615
Net cash used in investing activities	<u>(619,026</u>)	<u>(99,109</u>)
Net increase (decrease) in cash	(686,589)	686,515
Cash, beginning of year	<u>786,969</u>	100,454
Cash, end of year	\$ <u>100,380</u>	786,969

See accompanying notes to financial statements.



Notes to Financial Statements

(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.

(c) <u>Investments</u>

Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government agency obligations and are held for long-term investment purposes. U.S. government agency obligations are stated at amortized cost unless there is a decline in value that is considered other than temporary, in which case the carrying amount is reduced to market value. Management has the

intent and ability to hold investments, therefore, no realized losses are anticipated.

(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, and on a per covered participant basis for LMRMA accident and health fund (see note 2). For the years ended December 31, 1995 and 1994, LMRFA provided reinsurance directly to municipalities for a total premium of \$150,247 and \$190,240, respectively.

(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

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Notes to Financial Statements

calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect 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. The costs associated with new and renewed contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 6.6% at December 31, 1995 and 1994.

(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).

(g) <u>Income Taxes</u>

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

(h) <u>Use of Estimates</u>

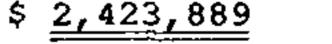
Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

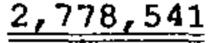
(2) <u>Related Party Transactions</u>

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:

	Reinsurance		
	Fee	<u>1995</u>	<u>1994</u>
Reinsurance income:			
LMRMA:			
Public Liability	24.5% ENP	\$ 1,596,371	1,495,943
Workers' Compensation	10.0% ENP	827,518	860,649
Accident and Health	10.0% PCP	<u> </u>	421,949

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Notes to Financial Statements

	<u>1995</u>	1994
Due from affiliate:		
LMRMA:		
Public Liability	\$ 210,935	103,530
Workers' Compensation	78,167	90,649
Accident and Health		35,266
	\$ 289,102	229,445

(3) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1995 and 1994:

> 1994 <u>1995</u> (Amounts in thousands)

Unpaid claims and claim adjustment

expenses at beginning of year	\$ 20.572	16.373
Incurred claims and claim adjustment expenses:		
Provision for insured events of		
the current year	3,793	4,144
Increase in provision for insured events		-//
of prior years	1,534	2,150
- L l		
Total incurred claims and claims		
adjustment expense	5,327	6.294
Payments:		
- Claims and claim adjustment expenses		
attributable to insured events		
of current year		195
Claims and claim adjustment expenses		
attributable to insured events		
of prior years	2,356	1,900
Total payments	2,356	2,095
Total unpaid claims and claim		
adjustment expenses at end of year	23,543	20,572
	•	·
Less discounting at 6.6% for 1995 and 1994	(8,247)	<u>(5,961</u>)
-	F	
Unpaid claims reserve	\$ 15,296	14,611
-		

Settled claims in 1995 have not exceeded insurance coverage.

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(Continued)

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Notes to Financial Statements

(4) <u>Deposits and Investments</u>

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 question. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 1995 and 1994.

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" demonits are those belowers in even of federal depositements

deposits are those balances in excess of federal depository insurance.

	<u>1995</u>	1994
Insured Uninsured	\$ 100,380 	100,000 <u>686,969</u>
	\$ <u>100,380</u>	<u>786,969</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 amortized cost, unrealized gains, unrealized losses and market value for investments by type at December 31, 1995 and 1994, are as follows:

	Amortized <u>cost</u>	Unrealized <u>gains</u>	Unrealized <u>losses</u>	Market <u>value</u>	Category
December 31, 1995:					
Certificates of deposit	\$ 199,000	=-	_	199,000	-
Money market accounts	818,026	-	-	818,026	-
Repurchase agreements	2,876,453		_	2,876,453	1
U.S. Government Agency					
Obligations:					
Mortgage-backed					
securities	5,617,468	59,112	(452,731)	5,223,849	1
U.S. Obligations	<u>13,496,256</u>	<u>253, 558</u>	(<u>153,697</u>)	13.596.117	1

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Notes to Financial Statements

		tized <u>xost</u>	Unrealized <u>gains</u>	Unrealized <u>losses</u>	Market <u>value</u>	<u>Category</u>
December 31, 1994:						
Certificates of						
deposit	\$	299,000		-	299,00 0	. –
Money market accounts	2,	386,057	~	-	2,386,057	-
Repurchase agreements	з,	122,202		_	3,122,202	1
U.S. Government Agency						
Obligations:						
Mortgage-backed						
securities	8,	769,908		(1,578,831)	7,191,077	1
U.S. Treasury						
securities	5,	686,465	36	(883,892)	4,802,609	1
Obligations of						
state and						
political						
subdivisions		401,445	2,921	<u>(21,957)</u>	382,409	1

\$ <u>20,665,077</u> <u>2,957</u> (<u>2,484,680</u>) <u>18,183,354</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 and money markets are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent.

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

	199	95	199	4
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>
Due in one year Due after one year	\$ 4,194,659	4,197,385	6,012,885	6,007,229
through five years Due after five years	8,405,150	8,548,488	3,203,199	3,080,980
through ten years	4,493,904	4,571,008	944,045	864,910
Due after ten years	5,913,490	<u>5,396,564</u>	10,504,948	8,230,235
	\$ <u>23,007,203</u>	22,713,445	20,665,077	<u>18,183,354</u>

Included in investment balances as of December 31, 1995 and 1994 are derivative investments. As of December 31, 1995, these investments included U.S. Treasury strips, collateralized mortgage obligations, and

floating rate securities with a cost of \$6,102,237 and a market value of \$5,501,421. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

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Notes to Financial Statements

(5) <u>Reinsurance Policy Coverage</u>

Prior to and during the year ended December 31, 1994, LMRFA provided reinsurance to LMRMA Accident and Health, Public Liability and Workers' Compensation Funds with the following aggregate:

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: \$500,000 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

Effective January 1, 1995, LMRMA 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 \$450,000

No changes were made in the Public Liability Fund coverage.

(Continued)

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Notes to Financial Statements

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

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.

As of December 31, 1995, LMRFA also provides reinsurance for 3 municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium.



Schedule

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LOUISIANA MUNICIPAL RESERVE FUND AGENCY

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December 31, 1995

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 1995 and as of the end of each of the last eight years.

	Fund Year Ended									
	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u> (in t	<u>1991</u> housands	<u>1990</u> 3)	<u>1989</u>	<u>1988</u>		
ENP and investment income	\$ <u>4,327</u>	<u>4,443</u>	<u>4,897</u>	<u>4,079</u>	<u>3,792</u>	<u>3,263</u>	<u>2,603</u>	<u>2,231</u>		
Operating costs, unallocated	\$ 427	20	<u> </u>	2	2	7	3	7		

Estimated incurred

claims and expense,								
end of policy year	\$ <u>3,793</u>	4,144	<u>3,130</u>	4,754	<u>3,739</u>	<u>3,912</u>	<u>3,131</u>	2,437
Paid (cumulative) as of	:							
End of policy year	\$ -	195	627	207	82	222	-	22
One year later	-	487	627	988	388	279		22
Two years later	-		1,175	1,710	1,249	279	-	22
Three years later	-	-		2,675	1,562	321	516	22
Four years later	_	-	-	-	1,732	1,008	686	22
Five years later	-	-		-	-	1,147	1,152	103
Six years later	-	-	-	-	-	-	1,287	159
Seven years later	-	-	-	-	-	-	-	159
Re-estimated incurred								
claims and claims								
expense:								
End of policy year	\$ 3,793	4,144	3,130	4,754	3,739	3,912	3,131	2,437
One year later	-	4,230	3,792	4,174	2,862	3,608	1,846	1,816
Two years later	-	-	3,146	5,501	3,526	3,297	3,344	1,330
Three years later	-		-	5,382	3,828	3,686	3,297	1,533
Four years later	-	-	-	-	4,051	3,122	2,790	1,088
Five years later	-	-	-	-	-	3,746	2,583	1,496
Six years later	-	-	-	-	-		3,319	909
Seven years later		-	-	-	-		-	829
Increase (decrease) in								
estimated incurred								
claims and expense								
from end of policy								
year	\$ -	86	16	628	312	(166)	188	(1,608)
		12						
		13						

Suite 3500 One Shell Square New Orleans, LA 70139-3599

Report on Internal Control Structure 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 as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

In planning and performing our audits of the financial statements of Louisiana Municipal Reserve Fund Agency for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

The management of Louisiana Municipal Reserve Fund Agency is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may

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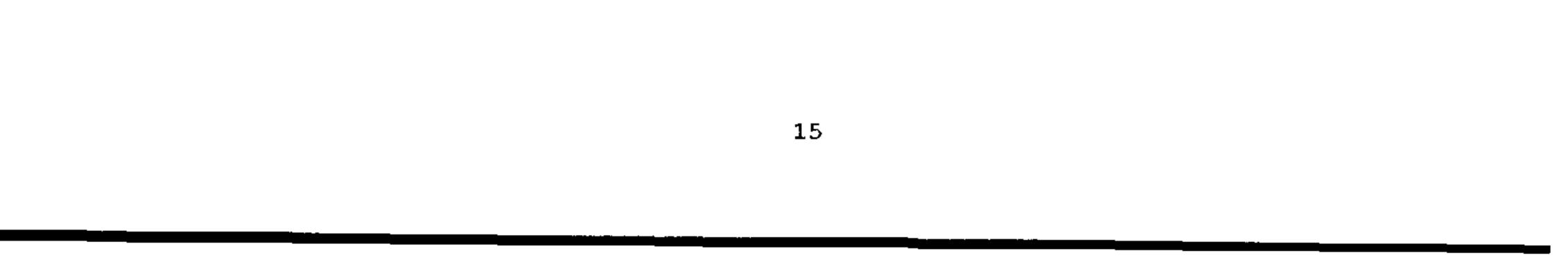
Member Litter of Klynveld Peat Matvark Goerdeling nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Louisiana Municipal Reserve Fund Agency and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KMG-Pert Marine HP

April 5, 1996



Suite 3500 One Shell Square New Orleans, LA 70139-3599

Compliance Report Based on 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 as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations and contracts applicable to Louisiana Municipal Reserve Fund Agency is the responsibility of Louisiana Municipal Reserve Fund Agency's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Municipal Reserve Fund Agency's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of Louisiana Municipal Reserve Fund Agency and the Office of the Legislative Auditor, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.



April 5, 1996

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Financial Statements

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

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Suite 3500 One Shell Square New Orleans, LA 70139-3599

Independent Auditors' Report

Officers and Trustees Louisiana Municipal Association Unemployment Compensation Fund:

We have audited the accompanying balance sheets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balance, and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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 Association - Unemployment Compensation Fund as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report, dated April 5, 1996, on our consideration of the Fund's internal control structure and a report, dated April 5, 1996, on its compliance with laws and regulations.

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KMC Peat Marine LLP

April 5, 1996

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Balance Sheets

December 31, 1995 and 1994

Assets	<u>1995</u>	<u>1994</u>
Cash in banks (note 3) Accounts receivable	\$ 157,072 69,526	98,564 90,403
Accrued interest receivable Investments (note 3)	20,354 <u>5,553,900</u>	7,092 <u>4,920,401</u>
	\$ <u>5,800,852</u>	5,116,460
Liabilities and Fund Balance		
Liabilities: Accrued expenses Unpaid claims reserve (note 2)	11,031 <u>36,374</u>	9,741 <u>15,780</u>
	47,405	25,521

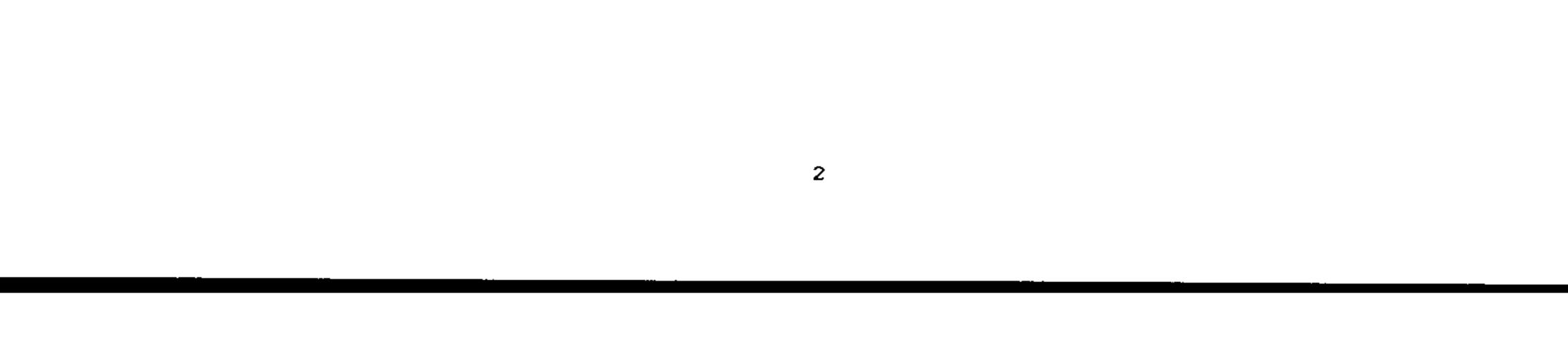
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<u>5,753,447</u>	<u>5,090,939</u>
\$ <u>5,800,852</u>	5,116,460

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See accompanying notes to financial statements.



Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Revenues:		
Premium income	\$ 354,589	344,209
Investment income	468,416	<u>199,714</u>
Total revenue	823,005	<u>543,923</u>
Expenses:		
Claims expense (note 2)	137,030	133 , 189
Service agent	21,456	20,010
Miscellaneous	2,011	
Total expenses	160,497	<u> 153,199</u>
Excess of revenues over expenses	662,508	390,724

Fund balance, beginning of year	<u>5,090,939</u>	4,700,215
Fund balance, end of year	\$ <u>5,753,447</u>	<u>5,090,939</u>

See accompanying notes to financial statements.

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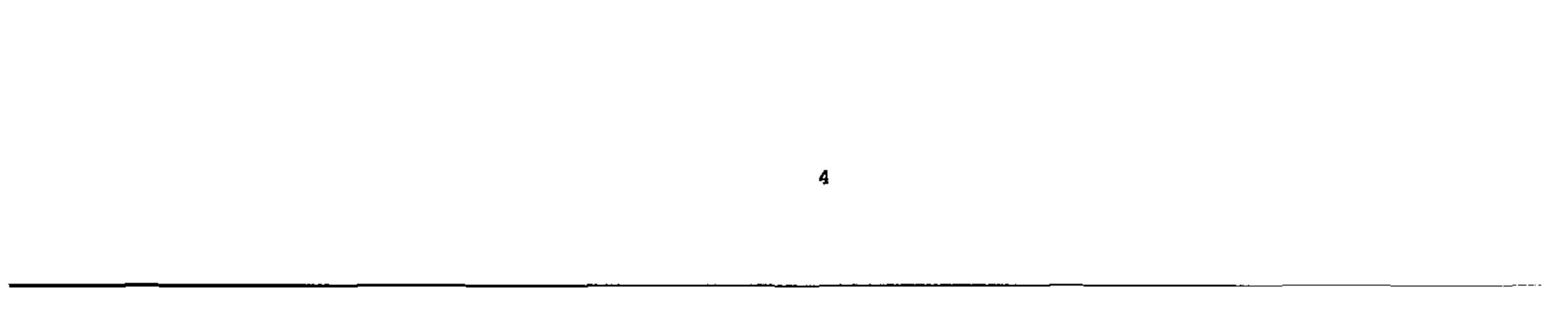
Statements of Cash Flows

Years ended December 31, 1995 and 1994

	199)5	<u>1994</u>
Cash flows from operating activities:			
Excess of revenues over expenses	\$ 662	,508	390,724
Less adjustment for investment interest	(468	<u>,416</u>)	(149,624)
	194	<u>,092</u>	241,100
Adjustments to reconcile excess of revenues over expenses to net cash provided by operations:			
Increase (decrease) in receivables	20	,877	(7,097)
Increase (decrease) in unpaid claims reserve	20	,594	(28,643)
Increase in accrued expenses	1	290	5,108
Total adjustments	42	.761	(30,632)

Net cash provided by operating activities	236,853	210,468
Cash flows from investing activities:		
Purchases of investments	(1,607,839)	(1,597,506)
Sale on maturity of investments	974,340	1,273,835
Interest income received, net of premium accretion of \$289,426 and \$53,230 in 1995		
and 1994, respectively	455,154	123,718
Net cash used by investing activities	(178,345)	<u>(199,953</u>)
Net increase in cash	58,508	10,515
Cash, beginning of year	98,564	88,049
Cash, end of year	\$ <u>157,072</u>	98,564

See accompanying notes to financial statements.



Notes to Financial Statements

December 31, 1995 and 1994

(1) Significant Accounting Policies

(a) <u>Background and Financial Statement Presentation</u>

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 selfinsurance 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, 1995, there were 4,466 participants and 128 participating municipalities. As of December 31, 1994, there were 4,599 participants and 130 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both 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 or contradict GASB pronouncements.

(c) <u>Cash and Cash Flows</u>

For the purposes of the statement 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 sheet as cash in banks.

(d) <u>Investments</u>

Investments are carried at cost or amortized cost unless there is a decline in value that is considered other than temporary, in which

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Notes to Financial Statements

case the carrying amount is reduced to market value. 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.

(e) <u>Unpaid Claims Liability</u>

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) <u>Income Taxes</u>

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

(g) <u>Use of Estimates</u>

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) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1995 and 1994:

	<u>1995</u> (in tho	<u>1994</u> usands)
Unpaid claims and claim adjustment expenses at beginning of year	\$ 16	_44
Incurred claims and claim adjustment expenses - provision for insured events of the current year	<u>137</u>	<u>133</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year Claims and claim adjustment expenses attributable	\$ 101	117
to insured events of prior years	<u> 16</u>	44
		_

Total payments



Total unpaid claims and claim adjustment expenses at end of year

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Notes to Financial Statements

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

(3) Cash and Investments

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

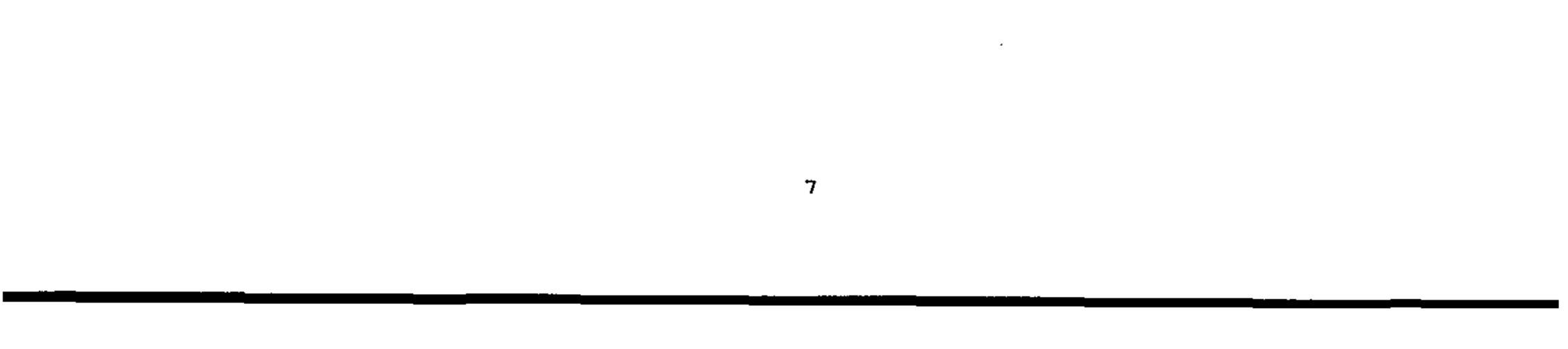
The demand deposits are categorized to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance. Bank account balances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



Insured Uninsured	\$ 157,072	98,564
	\$ 157,072	98,564

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.



Notes to Financial Statements

The amortized cost, unrealized gains, unrealized losses and market value for investments by security type at December 31, 1995 and 1994 are as follows:

	Amortized <u>cost</u>	Unrealized <u>gains</u>	Unrealized <u>losses</u>	Market <u>value</u>	<u>Category</u>
December 31, 1995:					
Certificates					
of deposit \$	100,000	-		100,000	-
Money market					
accounts	91,943	-	-	91,943	-
U.S. Government					
Agency obli-					
gations	2,298,093	16,184	(332,868)	1,981,409	1
U.S. Treasury					
securities	3,063,864	17.295	(240,369)	2,840,790	1
\$	\$ <u>5,553,900</u>	<u>33,479</u>	<u>(573,237</u>)	5,014,142	

December 31, 1994: Money market					
-	\$ 119,947	-		119,947	-
agreements	665,872	-	_	665,872	1
U.S. Government Agency obli-					
gations	3,178,854		(1,240,164)	1,938,690	1
U.S. Treasury securities	<u>955,728</u>		(274,101)	681,627	l
	\$ <u>4,920,401</u>		(1,514,265)	<u>3,406,136</u>	

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

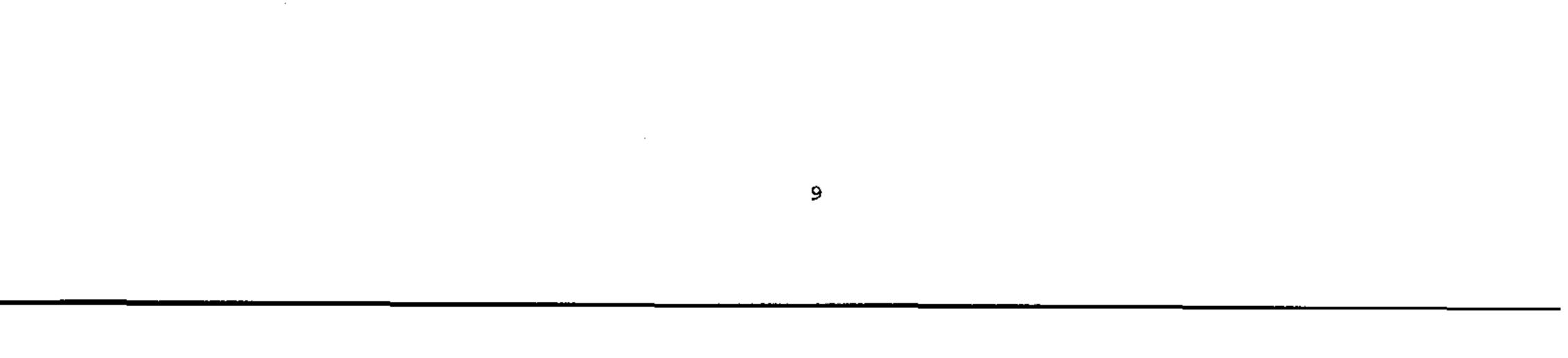
	1995		1994	
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>
Due ín one year Due after one year	\$ 191,943	191,943	785,819	785,819
through five years Due after five years	1,028,264	1,035,440	158,004	134,491
through ten years	255,712	263,343	6,369	5,427
Due after ten years	4,077,981	3,523,416	<u>3,970,209</u>	2,480,399
	\$ <u>5,553,900</u>	5,014,142	4,920,401	3,406,136

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Notes to Financial Statements

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Included in investment balances as of December 31, 1995 and 1994 are derivative investments. As of December 31, 1995, these investments included U.S. Treasury strips and collateralized mortgage obligations with a cost of \$4,152,485 and a market value of \$3,597,021. These derivative investments are interest rate sensitive, and as a result, could experience future market value fluctuations.



Suite 3500 One Shell Square New Orleans, LA 70139-3599

> Report on Internal Control Structure 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 as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

The management of Louisiana Municipal Association - Unemployment Compensation Fund is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund for the year ended December 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

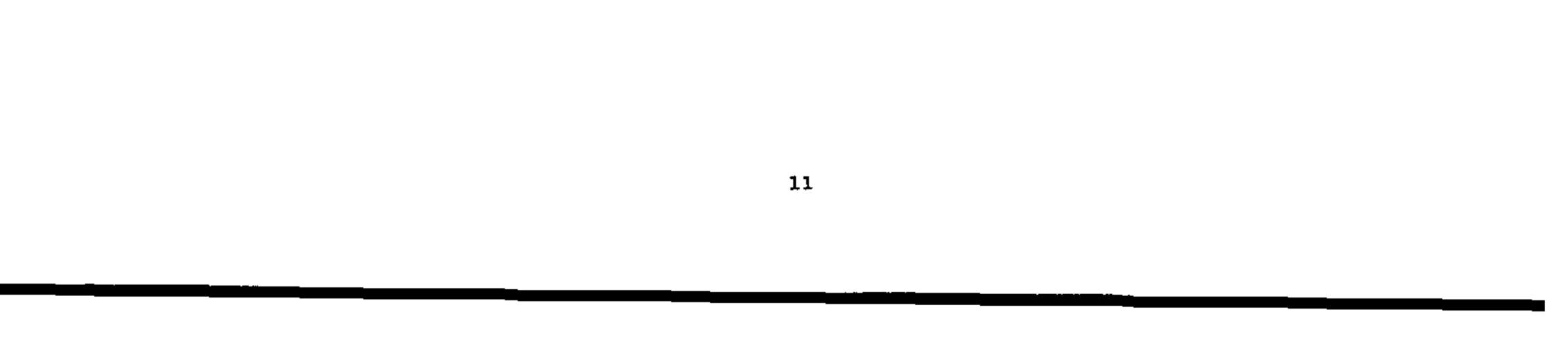
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Member Lessof Kynydo Peat Marvaux Greeneder Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Louisiana Municipal Association - Unemployment Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Manick LL

April 5, 1996



Suite 3500 One Shell Square New Orleans, LA 70139-3599

<u>Compliance Report Based on Audit of Financial Statements</u> <u>Performed in Accordance with Government Auditing Standards</u>

Officers and Trustees Louisiana Municipal Association Unemployment Compensation Fund:

We have audited the financial statements of Louisiana Municipal Association -Unemployment Compensation Fund as of and for the year ended December 31, 1995, and have issued our report thereon dated April 5, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations and contracts applicable to Louisiana Municipal Association - Unemployment Compensation Fund is the responsibility of the Fund's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Louisiana Municipal Association - Unemployment Compensation Fund's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Louisiana Municipal Association - Unemployment Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana. However, this report is a matter of public record and its distribution is not limited.

KPMG Peat Manurch LAP

April 5, 1996

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