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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

LMA - UNEMPLOYMENT COMPENSATION FUND

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December 31, 1995

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited or reviewed entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 8-21-96

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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.

*KPMG Peat Marwick LLP*

April 5, 1996

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Cash (note 4)	\$ -	104,813
Investments	2,527,623	2,352,279
Reinsurance receivable	37,452	284,049
Accounts receivable	112,712	19,156
Accrued interest receivable	<u>1,976</u>	<u>1,187</u>
 Total assets	 \$ <u>2,679,763</u>	 <u>2,761,484</u>
 <u>Liabilities and Fund Balance (Deficit)</u>		
Liabilities:		
Unpaid claims reserve (note 3)	2,265,000	2,075,000
Unearned premium (note 2)	300,000	510,773
Due to affiliates (note 2)	34,699	71,901
Accounts payable	<u>92,352</u>	<u>24,758</u>
	2,692,051	2,682,432
 Fund balance (deficit) (note 6)	 <u>(12,288)</u>	 <u>79,052</u>
	\$ <u>2,679,763</u>	<u>2,761,484</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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	<u>129,269</u>	<u>79,597</u>
Total operating revenue	<u>9,908,574</u>	<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	<u>3,136</u>	<u>(4,697)</u>
Total operating expenses	<u>9,999,914</u>	<u>9,412,208</u>
(Deficiency) excess of revenues over expenses	(91,340)	732,573
Fund balance (deficit), beginning of year	<u>79,052</u>	<u>(653,521)</u>
Fund balance (deficit), end of year	\$ <u><u>(12,288)</u></u>	<u><u>79,052</u></u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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	<u>(129,269)</u>	<u>(79,597)</u>
	<u>(220,609)</u>	<u>652,976</u>
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>	<u>71,000</u>
Total adjustments	<u>162,659</u>	<u>(290,205)</u>
Net cash (used in) provided by operating activities	<u>(57,950)</u>	<u>362,771</u>
Cash flows from investing activities:		
Purchase of investments	(434,284)	(422,510)
Sales/maturities of investments	258,941	-
Investment interest received	<u>128,480</u>	<u>78,410</u>
Net cash used in investing activities	<u>(46,863)</u>	<u>(344,100)</u>
Net (decrease) increase in cash	(104,813)	18,671
Cash, beginning of year	<u>104,813</u>	<u>86,142</u>
Cash, end of year	\$ <u><u>-</u></u>	<u><u>104,813</u></u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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.

(Continued)



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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) Investments

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.

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

(f) Cash and Cash Equivalents

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) Reinsurance

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in note 5. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy.

(h) Income Taxes

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

(i) Use of Estimates

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

(2) Related Party Transactions

(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)	\$ <u>21,912</u>	<u>23,015</u>
Service agent fees - RMI (\$13.05 for health participants and \$1.20 for dental participants)	\$ <u>488,763</u>	<u>512,081</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

	<u>1995</u>	<u>1994</u>
Reinsurance:		
RMI administrative fee (15% of monthly reinsurance fee)	\$ <u>3,500</u>	<u>-</u>
LMRFA (approximately \$11 per person)	\$ <u>-</u>	<u>421,949</u>
LMRFA reinsurance reimbursement	\$ <u>37,453</u>	<u>478,735</u>
Due to affiliates:		
LMA	\$ 1,839	1,968
RMI	32,860	34,667
LMRFA	<u>-</u>	<u>35,266</u>
	\$ <u>34,699</u>	<u>71,901</u>

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)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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	\$ 2,075	2,133
Incurred claims and claim adjustment expense-provision for insured events	<u>9,164</u>	<u>8,939</u>
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	<u>(37)</u>	<u>(284)</u>
Unpaid claims reserve	\$ <u>2,265</u>	<u>2,075</u>

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.

	<u>1995</u>	<u>1994</u>
Insured	\$ -	100,000
Uninsured	<u>-</u>	<u>4,813</u>
	\$ <u>-</u>	<u>104,813</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

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.

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

	<u>1995</u>		<u>1994</u>		
	Amortized cost	Market value	Amortized cost	Market value	Category
Repurchase agreement	\$ 2,154,152	2,154,152	1,991,612	1,991,612	1
Certificates of deposit - insured	100,000	100,000	100,000	100,000	-
Money market accounts	13,631	13,631	1,643	1,643	-
U.S. Government Obligations	<u>259,840</u>	<u>264,928</u>	<u>259,024</u>	<u>246,686</u>	1
	<u>\$ 2,527,623</u>	<u>2,532,711</u>	<u>2,352,279</u>	<u>2,339,941</u>	

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>	<u>-</u>
Gross unrealized losses	<u>\$ -</u>	<u>12,337</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

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

	<u>1995</u>		<u>1994</u>	
	<u>Amortized cost</u>	<u>Market value</u>	<u>Amortized cost</u>	<u>Market value</u>
Due in one year	\$ 2,267,783	2,267,783	2,093,255	2,093,255
Due after one year through five years	259,840	264,928	-	-
Due after ten years	<u>-</u>	<u>-</u>	<u>259,024</u>	<u>246,686</u>
	<u>\$ 2,527,623</u>	<u>2,532,711</u>	<u>2,352,279</u>	<u>2,339,941</u>

(5) Reinsurance Policy Coverage

The Fund and its reinsurers represent a cooperative program for group funding and risk management of accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants, and the Fund has the authority to assess the participants to fund any deficits incurred.

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.

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

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

Assets

Cash and cash equivalents	\$ 786,969
Accrued interest receivable	133,578
Due from affiliates	229,445
Investments	<u>20,665,077</u>
	\$ <u>21,815,069</u>

Liabilities and Fund Balance

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

(6) Fund Balance Deficit

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.

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



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 Marwick LLP*

April 5, 1996

# KPMG Peat Marwick LLP

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.



April 5, 1996

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Financial Statements and Schedule

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY 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  
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

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.

*KPMG Peat Marwick LLP*

April 5, 1996

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<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)	<u>2,606,845</u>	<u>2,904,356</u>
	\$ <u>16,980,440</u>	<u>15,338,379</u>
 <u>Liabilities and Fund Balance</u>		
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	<u>1,120</u>	<u>1,273</u>
	12,406,803	12,177,234
Fund balance	<u>4,573,637</u>	<u>3,161,145</u>
	\$ <u>16,980,440</u>	<u>15,338,379</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
<b>Revenues:</b>		
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))	<u>334,945</u>	<u>-</u>
Total revenue	<u>7,939,713</u>	<u>7,178,951</u>
<b>Expenses:</b>		
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	<u>6,508</u>	<u>2,548</u>
Total expenses	<u>6,527,221</u>	<u>7,609,763</u>
Excess (deficiency) of revenues over expenses	1,412,492	(430,812)
Fund balance, beginning of year	<u>3,161,145</u>	<u>3,591,957</u>
Fund balance, end of year	\$ <u>4,573,637</u>	<u>3,161,145</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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	(1,088,966)	(1,073,063)
	<u>323,526</u>	<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	(230,535)	222,999
Increase in accrued expenses, unearned premiums and due to affiliates	<u>460,104</u>	<u>246,606</u>
Total adjustments	<u>(69,716)</u>	<u>422,805</u>
Net cash provided by (used in) operating activities	<u>253,810</u>	<u>(1,081,070)</u>
Cash flows from investing activities:		
Purchase of investments	(2,028,323)	(3,335,251)
Sale/maturity of investments	2,838,003	3,373,254
Investment interest received	1,071,943	1,051,501
Issuance of note receivable	-	(53,842)
Principal payments from note receivable	<u>297,511</u>	<u>46,044</u>
Net cash provided by investing activities	<u>2,179,134</u>	<u>1,081,706</u>
Net increase in cash	2,432,944	636
Cash, beginning of year	<u>98,683</u>	<u>98,047</u>
Cash, end of year	\$ <u>2,531,627</u>	<u>98,683</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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 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

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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) Investments

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) 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 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.

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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) Reinsurance

The Fund uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as 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) Use of Estimates

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

(2) Related Party Transactions

(a) Fees and Services

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned normal premiums as follows:

	<u>1995</u>	<u>1994</u>
Expenses:		
Administrative fee - LMA (2% of ENP plus interest earned)	\$ <u>1,219,282</u>	<u>1,195,398</u>
Service agent - RMI (8.5% of ENP)	\$ <u>553,843</u>	<u>519,000</u>
Reinsurance - LMRFA (24.5% of ENP)	\$ <u>1,596,371</u>	<u>1,495,943</u>
Reinsurance recoveries - LMRFA	\$ <u>1,820,928</u>	<u>4,764,642</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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	<u>180,905</u>	<u>(436,480)</u>
	1,201,462	533,350
Reinsurance premium due to LMRFA	<u>30,029</u>	<u>-</u>
Due to (from) affiliate, net	\$ <u>1,231,491</u>	<u>533,350</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	<u>2,155,240</u>	
	\$ <u>2,606,845</u>	

(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

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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>	<u>17,891</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	7,071	7,311
Increase (decrease) in provision for 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>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Notes to Financial Statements

	1995	1994
	(Amounts in thousands)	
Payments:		
Claims and claim adjustment expenses attributable of insured events of current year	\$ 463	528
Claims and claim adjustment expenses attributable to insured events of prior years	<u>4,694</u>	<u>5,243</u>
Total payments	<u>5,157</u>	<u>5,771</u>
Total unpaid claims and claim adjustment expenses at end of year	21,077	21,125
Less discounting at 6.6% for 1995 and 1994	(4,083)	(3,892)
Less claims covered by reinsurer (net of discount)	<u>(7,747)</u>	<u>(7,755)</u>
Unpaid claims reserve	\$ <u>9,247</u>	<u>9,478</u>

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)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

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>          -</u>
	<u>\$ 2,531,627</u>	<u>98,683</u>

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

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

The amortized cost, 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 <u>gains</u>	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>	<u>161,037</u>	<u>(101,944)</u>	<u>8,144,232</u>	1
	<u>\$ 11,348,262</u>	<u>178,835</u>	<u>(129,550)</u>	<u>11,397,547</u>	

(Continued)



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Notes to Financial Statements

	<u>Amortized</u> <u>cost</u>	<u>Unrealized</u> <u>gains</u>	<u>Unrealized</u> <u>losses</u>	<u>Market</u> <u>value</u>	<u>Category</u>
December 31, 1994:					
Certificates of deposit	\$ 599,000	-	-	599,000	-
Money market accounts	273,427	-	-	273,427	-
Repurchase agreements	775,961	-	-	775,961	1
U.S. Government and Agency Obligations:					
U.S. Treasury securities	3,486,556	735	(367,957)	3,119,334	1
Mortgage-backed securities	6,724,213	-	(755,910)	5,968,303	1
Obligations of state and political subdivisions	<u>298,786</u>	<u>1,069</u>	<u>(14,131)</u>	<u>285,724</u>	1
	<u>\$ 12,157,943</u>	<u>1,804</u>	<u>(1,137,998)</u>	<u>11,021,749</u>	

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

Included in investment balances as of December 31, 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:

	<u>1995</u>		<u>1994</u>	
	<u>Amortized</u> <u>cost</u>	<u>Market</u> <u>value</u>	<u>Amortized</u> <u>cost</u>	<u>Market</u> <u>value</u>
Due in one year	\$ 1,151,716	1,154,561	1,701,084	1,698,388
Due after one year through five years	4,505,109	4,578,819	3,173,229	3,033,521
Due after five years through ten years	1,314,799	1,321,815	1,330,042	1,209,905
Due after ten years	<u>4,376,638</u>	<u>4,342,352</u>	<u>5,953,588</u>	<u>5,079,935</u>
	<u>\$ 11,348,262</u>	<u>11,397,547</u>	<u>12,157,943</u>	<u>11,021,749</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND

Notes to Financial Statements

(5) Reinsurance Policy Coverage

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

- Item I: \$5,000,000 annual aggregate excess of 65% of earned normal premium
- Item II: \$500,000 each and every loss in excess of \$100,000 each 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	\$ 100,380	786,969
Accrued interest receivable	170,275	133,578
Due from affiliates	289,102	229,445
Investments	<u>23,007,203</u>	<u>20,665,077</u>
	<u>\$ 23,566,960</u>	<u>21,815,069</u>
 <u>Liabilities and Fund Balance</u> 		
Liabilities:		
Unpaid claims reserve	\$ 15,296,160	14,611,095
Unearned premium	46,663	39,879
Accrued expense	<u>174,476</u>	<u>3,649</u>
	15,517,299	14,654,623
Fund balance	<u>8,049,661</u>	<u>7,160,446</u>
	<u>\$ 23,566,960</u>	<u>21,815,069</u>

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	1994	1993	1992	1991	1990	1989	1988
	(in thousands)							
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>	<u>2,921</u>	<u>2,513</u>
Estimated incurred claims and expense, end of policy year	\$ <u>4,243</u>	<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 year	\$ 463	528	409	337	415	479	341	424
One year later	-	1,625	1,105	1,249	984	1,081	931	1,258
Two years later	-	-	2,019	2,668	2,007	1,802	1,750	1,492
Three years later	-	-	-	3,297	2,613	2,556	2,474	2,258
Four years later	-	-	-	-	2,721	2,752	2,841	2,516
Five years later	-	-	-	-	-	2,946	3,129	2,712
Six years later	-	-	-	-	-	-	3,329	2,826
Seven years later	-	-	-	-	-	-	-	2,772
Re-estimated incurred claims and claims expense:								
End of policy year	\$ 4,243	3,976	3,930	4,003	3,843	3,814	3,799	3,382
One year later	-	3,976	3,930	4,037	3,843	3,814	3,799	3,613
Two years later	-	-	3,930	4,037	3,877	3,814	3,685	3,133
Three years later	-	-	-	4,037	3,877	3,829	3,604	3,629
Four years later	-	-	-	-	3,877	3,829	3,804	3,425
Five years later	-	-	-	-	-	3,829	3,804	3,654
Six years later	-	-	-	-	-	-	3,804	3,654
Seven years later	-	-	-	-	-	-	-	3,654
Increase in estimated incurred claims and expense from end of policy year	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>34</u>	<u>34</u>	<u>15</u>	<u>5</u>	<u>272</u>

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 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 - 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.

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.

*KPMG Peat Marwick LLP*

April 5, 1996

# KPMG Peat Marwick LLP

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  
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.



April 5, 1996

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

Financial Statements and Schedule

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION 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  
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.



April 5, 1996

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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	14,574,192
Accounts receivable	1,004,274	1,023,676
Due from reinsurer (note 3)	826,008	300,929
Accrued interest receivable	<u>124,400</u>	<u>98,402</u>
	<u>\$ 18,782,702</u>	<u>16,102,708</u>
<u>Liabilities and Fund Balance</u>		
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>	<u>203,403</u>
	11,764,676	11,651,077
Fund balance	<u>7,018,026</u>	<u>4,451,631</u>
	<u>\$ 18,782,702</u>	<u>16,102,708</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
<b>Revenues:</b>		
Premium income	\$ 8,275,180	8,606,488
Investment income (note 2)	1,231,019	962,505
Refund of administrative fees (2(b))	<u>315,055</u>	<u>-</u>
Total revenue	<u>9,821,254</u>	<u>9,568,993</u>
<b>Expenses:</b>		
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	<u>55,120</u>	<u>7,917</u>
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	<u>4,451,631</u>	<u>3,562,194</u>
Fund balance, end of year	\$ <u>7,018,026</u>	<u>4,451,631</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

Statements of Cash Flows

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 2,566,395	889,437
Less adjustment for investment interest	<u>(1,231,019)</u>	<u>(962,505)</u>
	<u>1,335,376</u>	<u>(73,068)</u>
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	<u>257,528</u>	<u>435,446</u>
Total adjustments	<u>(392,078)</u>	<u>1,206,036</u>
Net cash provided by operating activities	<u>943,298</u>	<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	1,205,021	801,204
Purchase of investments	(4,076,076)	(5,071,599)
Sale of investments	<u>1,822,248</u>	<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	<u>105,509</u>	<u>111,513</u>
Cash, end of year	\$ <u><u>-</u></u>	<u><u>105,509</u></u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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 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

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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) Investments

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) Statement of Cash Flows

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

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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) Reinsurance

The Fund uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as 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) Use of Estimates

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

(2) Related Party Transactions

(a) Fees and Services

LMA, RMI and LMRFA provides services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned normal premiums (ENP) as follows:

	<u>1995</u>	<u>1994</u>
<b>Expenses:</b>		
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)	\$ <u>624,776</u>	<u>649,790</u>
Reinsurance - LMRFA (10% of ENP)	\$ <u>827,518</u>	<u>860,649</u>
Due from reinsurer LMRFA (note 3)	\$ <u>798,588</u>	<u>300,929</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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	<u>78,167</u>	<u>90,649</u>
	<u>\$ 1,284,320</u>	<u>1,045,829</u>
LMRFA reinsurance recoveries	<u>\$ 816,519</u>	<u>631,368</u>

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.

(Continued)



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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 - gross	\$ <u>19,183</u>	<u>17,534</u>
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	<u>619</u>	<u>(762)</u>
Total incurred claims and claims adjustment expense	<u>7,202</u>	<u>6,700</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	1,007	819
Claims and claim adjustment expenses attributable to insured events of prior years	<u>3,538</u>	<u>4,232</u>
Total payments	<u>4,545</u>	<u>5,051</u>
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	\$ <u>8,765</u>	<u>8,909</u>

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

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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	<u>-</u>	<u>5,509</u>
	\$ <u>-</u>	<u>105,509</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. 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.

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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	\$ 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	<u>9,034,843</u>	<u>177,411</u>	<u>(121,654)</u>	<u>9,090,600</u>	1
	<u>\$ 16,828,020</u>	<u>200,880</u>	<u>(190,904)</u>	<u>16,837,996</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	<u>291,260</u>	<u>710</u>	<u>(13,417)</u>	<u>278,553</u>	1
	<u>\$ 14,574,192</u>	<u>1,445</u>	<u>(1,145,550)</u>	<u>13,430,087</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 \$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.

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

Notes to Financial Statements

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

	<u>1995</u>		<u>1994</u>	
	<u>Carrying amount</u>	<u>Market value</u>	<u>Carrying amount</u>	<u>Market value</u>
Due in one year	\$ 4,953,385	4,954,694	3,773,660	3,770,964
Due after one year through five years	5,240,713	5,290,553	3,742,371	3,590,368
Due after five years through ten years	2,232,234	2,270,487	1,172,120	1,077,339
Due after ten years	<u>4,401,688</u>	<u>4,322,262</u>	<u>5,886,041</u>	<u>4,991,416</u>
	<u>\$ 16,828,020</u>	<u>16,837,996</u>	<u>14,574,192</u>	<u>13,430,087</u>

(6) Reinsurance Policy Coverage

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>	
	<u>1995</u>	<u>1994</u>
Cash	\$ 100,380	786,969
Accrued interest receivable	170,275	133,578
Due from affiliates	289,102	229,445
Investments	<u>23,007,203</u>	<u>20,665,077</u>
	<u>\$ 23,566,960</u>	<u>21,815,069</u>

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

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	<u>174,476</u>	<u>3,649</u>
	15,517,299	14,654,623
Fund balance	<u>8,049,661</u>	<u>7,160,446</u>
	\$ <u>23,566,960</u>	<u>21,815,069</u>

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

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

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

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 Year Ended							
	1995	1994	1993	1992	1991	1990	1989	1988
	(in thousands)							
ENP and investment income	\$ <u>9,506</u>	<u>9,569</u>	<u>9,886</u>	<u>8,572</u>	<u>7,808</u>	<u>6,658</u>	<u>5,759</u>	<u>4,680</u>
Operating costs, unallocated	\$ <u>3,380</u>	<u>2,991</u>	<u>3,136</u>	<u>2,529</u>	<u>2,328</u>	<u>2,102</u>	<u>1,922</u>	<u>1,461</u>
Estimated incurred claims and expense, end of policy year	\$ <u>6,512</u>	<u>6,352</u>	<u>7,041</u>	<u>5,913</u>	<u>4,678</u>	<u>4,526</u>	<u>3,957</u>	<u>3,212</u>
Paid (cumulative) as of:								
End of policy year	\$ 1,007	819	1,033	1,343	1,323	1,576	1,166	713
One year later	-	1,736	2,109	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 later	-	-	-	4,472	4,379	4,691	3,749	2,029
Four years later	-	-	-	-	4,740	5,182	4,227	2,190
Five years 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 later	-	-	7,163	5,656	5,270	4,825	3,973	2,168
Three years later	-	-	-	6,020	5,270	4,744	3,973	2,358

(Continued)

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND

	Fund Year Ended							
	1995	1994	1993	1992	1991	1990	1989	1988
	(in thousands)							
Four years later	-	-	-	-	5,270	4,744	3,999	2,537
Five years later	-	-	-	-	-	4,744	3,999	3,633
Six years later	-	-	-	-	-	-	3,999	3,633
Seven years later	-	-	-	-	-	-	-	3,633
Increase in estimated incurred claims and expense from end of policy year	\$ -	318	122	107	592	218	42	421

See accompanying independent auditors' report.

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.



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.

*KPMG Peat Marwick LLP*

April 5, 1996

# KPMG Peat Marwick LLP

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  
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.



April 5, 1996

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Financial Statements and Schedule

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

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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  
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.



April 5, 1996

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Cash (note 4)	\$ 100,380	786,969
Investments (note 4)	23,007,203	20,665,077
Due from affiliates (note 2)	289,102	229,445
Accrued interest receivable	<u>170,275</u>	<u>133,578</u>
	\$ <u>23,566,960</u>	<u>21,815,069</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Unpaid claims reserve (note 3)	15,296,160	14,611,095
Unearned premium	46,663	39,879
Accrued expenses	<u>174,476</u>	<u>3,649</u>
	15,517,299	14,654,623
Fund balance	<u>8,049,661</u>	<u>7,160,446</u>
	\$ <u>23,566,960</u>	<u>21,815,069</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	<u>1995</u>	<u>1994</u>
<b>Revenues:</b>		
Premium income (note 2)	\$ 2,567,352	2,971,438
Investment income	<u>1,759,797</u>	<u>1,471,666</u>
Total revenue	<u>4,327,149</u>	<u>4,443,104</u>
<b>Expenses:</b>		
Claims expense (note 3)	3,011,023	5,436,745
Reinsurance premium expense	412,767	-
Miscellaneous	<u>14,144</u>	<u>19,720</u>
Total expenses	<u>3,437,934</u>	<u>5,456,465</u>
Excess (deficiency) of revenues over expenses	889,215	(1,013,361)
Fund balance, beginning of year	<u>7,160,446</u>	<u>8,173,807</u>
Fund balance, end of year	\$ <u><u>8,049,661</u></u>	<u><u>7,160,446</u></u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Statements of Cash Flows

Years ended December 31, 1995 and 1994

	1995	1994
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>	<u>(1,471,666)</u>
	<u>(870,582)</u>	<u>(2,485,027)</u>
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>	<u>(2,986)</u>
Total adjustments	<u>803,019</u>	<u>3,270,651</u>
Net cash provided by (used in) operating activities	<u>(67,563)</u>	<u>785,624</u>
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	<u>1,723,100</u>	<u>1,217,615</u>
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>	<u>100,454</u>
Cash, end of year	\$ <u><u>100,380</u></u>	<u><u>786,969</u></u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

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) Investments

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

(Continued)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

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) Income Taxes

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

(h) Use of Estimates

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

(2) Related Party Transactions

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned normal premiums as follows:

	Reinsurance Fee	1995	1994
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>	<u>421,949</u>
		<u>\$ 2,423,889</u>	<u>2,778,541</u>

(Continued)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Notes to Financial Statements

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

(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>20,572</u>	<u>16,373</u>
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	<u>1,534</u>	<u>2,150</u>
Total incurred claims and claims adjustment expense	<u>5,327</u>	<u>6,294</u>
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	<u>2,356</u>	<u>1,900</u>
Total payments	<u>2,356</u>	<u>2,095</u>
Total unpaid claims and claim adjustment expenses at end of year	23,543	20,572
Less discounting at 6.6% for 1995 and 1994	<u>(8,247)</u>	<u>(5,961)</u>
Unpaid claims reserve	<u>\$ 15,296</u>	<u>14,611</u>

Settled claims in 1995 have not exceeded insurance coverage.

(Continued)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Notes to Financial Statements

(4) Deposits and Investments

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these agencies shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in 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" deposits are those balances in excess of federal depository insurance.

	<u>1995</u>	<u>1994</u>
Insured	\$ 100,380	100,000
Uninsured	<u>          -</u>	<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:

	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Market value</u>	<u>Category</u>
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>	<u>13,596,117</u>	1
	<u>\$ 23,007,203</u>	<u>312,670</u>	<u>(606,428)</u>	<u>22,713,445</u>	

(Continued)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Notes to Financial Statements

	Amortized <u>cost</u>	Unrealized <u>gains</u>	Unrealized <u>losses</u>	Market <u>value</u>	<u>Category</u>
December 31, 1994:					
Certificates of deposit	\$ 299,000	-	-	299,000	-
Money market accounts	2,386,057	-	-	2,386,057	-
Repurchase agreements	3,122,202	-	-	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	<u>401,445</u>	<u>2,921</u>	<u>(21,957)</u>	<u>382,409</u>	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:

	<u>1995</u>		<u>1994</u>	
	Amortized <u>cost</u>	Market <u>value</u>	Amortized <u>cost</u>	Market <u>value</u>
Due in one year	\$ 4,194,659	4,197,385	6,012,885	6,007,229
Due after one year through five years	8,405,150	8,548,488	3,203,199	3,080,980
Due after five years through ten years	4,493,904	4,571,008	944,045	864,910
Due after ten years	<u>5,913,490</u>	<u>5,396,564</u>	<u>10,504,948</u>	<u>8,230,235</u>
	\$ <u>23,007,203</u>	<u>22,713,445</u>	<u>20,665,077</u>	<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.

(Continued)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Notes to Financial Statements

(5) Reinsurance Policy Coverage

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)

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

Notes to Financial Statements

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.

LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY

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							
	1995	1994	1993	1992	1991	1990	1989	1988
	(in thousands)							
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	\$ <u>427</u>	<u>20</u>	<u>17</u>	<u>2</u>	<u>2</u>	<u>7</u>	<u>3</u>	<u>7</u>
Estimated incurred claims and expense, end of policy year	\$ <u>3,793</u>	<u>4,144</u>	<u>3,130</u>	<u>4,754</u>	<u>3,739</u>	<u>3,912</u>	<u>3,131</u>	<u>2,437</u>
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)



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

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.

*KPMG Peat Marwick LLP*

April 5, 1996

# KPMG Peat Marwick LLP

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.

*KPMG Peat Marwick LLP*

April 5, 1996

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Financial Statements

December 31, 1995 and 1994

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION 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 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.



April 5, 1996

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Balance Sheets

December 31, 1995 and 1994

<u>Assets</u>	<u>1995</u>	<u>1994</u>
Cash in banks (note 3)	\$ 157,072	98,564
Accounts receivable	69,526	90,403
Accrued interest receivable	20,354	7,092
Investments (note 3)	<u>5,553,900</u>	<u>4,920,401</u>
	\$ <u>5,800,852</u>	<u>5,116,460</u>
 <u>Liabilities and Fund Balance</u>		
Liabilities:		
Accrued expenses	11,031	9,741
Unpaid claims reserve (note 2)	<u>36,374</u>	<u>15,780</u>
	47,405	25,521
Fund balance	<u>5,753,447</u>	<u>5,090,939</u>
	\$ <u>5,800,852</u>	<u>5,116,460</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Statements of Revenues, Expenses and Changes in Fund Balance

Years ended December 31, 1995 and 1994

	1995	1994
<b>Revenues:</b>		
Premium income	\$ 354,589	344,209
Investment income	<u>468,416</u>	<u>199,714</u>
Total revenue	<u>823,005</u>	<u>543,923</u>
<b>Expenses:</b>		
Claims expense (note 2)	137,030	133,189
Service agent	21,456	20,010
Miscellaneous	<u>2,011</u>	<u>-</u>
Total expenses	<u>160,497</u>	<u>153,199</u>
Excess of revenues over expenses	662,508	390,724
Fund balance, beginning of year	<u>5,090,939</u>	<u>4,700,215</u>
Fund balance, end of year	<u>\$ 5,753,447</u>	<u>5,090,939</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Statements of Cash Flows

Years ended December 31, 1995 and 1994

	1995	1994
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 662,508	390,724
Less adjustment for investment interest	<u>(468,416)</u>	<u>(149,624)</u>
	<u>194,092</u>	<u>241,100</u>
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	<u>1,290</u>	<u>5,108</u>
Total adjustments	<u>42,761</u>	<u>(30,632)</u>
Net cash provided by operating activities	<u>236,853</u>	<u>210,468</u>
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	<u>455,154</u>	<u>123,718</u>
Net cash used by investing activities	<u>(178,345)</u>	<u>(199,953)</u>
Net increase in cash	58,508	10,515
Cash, beginning of year	<u>98,564</u>	<u>88,049</u>
Cash, end of year	\$ <u>157,072</u>	<u>98,564</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Notes to Financial Statements

December 31, 1995 and 1994

(1) Significant Accounting Policies

(a) Background and Financial Statement Presentation

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities joined together in self-insurance agreements with respect to unemployment compensation fund insurance. Administration of the Fund is vested in the Executive Board of Louisiana Municipal Association.

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

As of December 31, 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) Cash and Cash Flows

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) Investments

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

(Continued)

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

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) Unpaid Claims Liability

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

(f) Income Taxes

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

(g) Use of Estimates

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

(2) 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>
	(in thousands)	
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>16</u>	<u>44</u>
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	\$ 101	117
Claims and claim adjustment expenses attributable to insured events of prior years	<u>16</u>	<u>44</u>
Total payments	<u>117</u>	<u>161</u>
Total unpaid claims and claim adjustment expenses at end of year	\$ <u><u>36</u></u>	<u><u>16</u></u>

(Continued)

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

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:

	<u>1995</u>	<u>1994</u>
Insured	\$ 157,072	98,564
Uninsured	<u>          -</u>	<u>          -</u>
	<u>\$ 157,072</u>	<u>98,564</u>

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

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

(Continued)

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

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	<u>3,063,864</u>	<u>17,295</u>	<u>(240,369)</u>	<u>2,840,790</u>	1
	<u>\$ 5,553,900</u>	<u>33,479</u>	<u>(573,237)</u>	<u>5,014,142</u>	
December 31, 1994:					
Money market accounts	\$ 119,947	-	-	119,947	-
Repurchase 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>	<u>-</u>	<u>(274,101)</u>	<u>681,627</u>	1
	<u>\$ 4,920,401</u>	<u>-</u>	<u>(1,514,265)</u>	<u>3,406,136</u>	

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

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

(Continued)

LOUISIANA MUNICIPAL ASSOCIATION  
UNEMPLOYMENT COMPENSATION FUND

Notes to Financial Statements

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.

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.

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 Marwick LLP*

April 5, 1996



# KPMG Peat Marwick LLP

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 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.



April 5, 1996