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Legislative Auditor

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Consolidated Financial Statements

December 31, 1998 and 1997

See Independent Auditors' Report Thereon

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Release Date 7-21-99

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

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LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 1998 and 1997

Assets	<u>1998</u>	<u>1997</u>
Cash	\$ 744,998	579,904
Investments (note 2)	1,494,870	948,718
Accounts receivable	184,824	186,218
Due from affiliates (note 3)	2,903,313	2,566,825
Prepaid expenses	70,812	85,643
Land, building, and equipment (cost), net (note 4)	4,387,329	4,542,998
Other assets (note 3)	<u>88,798</u>	<u>85,158</u>
Total assets	\$ <u>9,754,244</u>	<u>8,875,211</u>
Liabilities and Net Assets		
<i>Liabilities:</i>		
Unearned dues and fees	\$ 190,568	190,667
Accounts payable and account expenses	286,578	244,893
Notes payable (note 3)	1,488,758	3,932,711
Claims processing payable (note 10)	<u>250,000</u>	<u>290,000</u>
Total liabilities	2,175,904	2,598,271
Net assets - consolidated	<u>7,578,340</u>	<u>6,276,940</u>
Total liabilities and net assets	\$ <u>9,754,244</u>	<u>8,875,211</u>

See accompanying notes to consolidated financial statements.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Activities

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Changes in unrestricted net assets:		
Revenues and other support:		
Administrative fees and commissions (note 3)	\$ 5,091,897	4,458,413
Membership dues	175,815	291,413
Legal services (note 3)	280,862	268,380
Rent	65,495	86,313
Interest income (note 3)	85,258	75,250
Other income	<u>280,048</u>	<u>335,285</u>
Total unrestricted revenues and other support	6,080,275	5,515,361
Expenses - general and administrative	<u>3,147,859</u>	<u>3,462,153</u>
Increase in unrestricted net assets before participant funding	2,932,416	2,053,208
Participant funding (note 3)	<u>1,208,000</u>	<u>1,381,200</u>
Change in unrestricted net assets after participant funding	1,540,181	669,438
Net assets at beginning of year	<u>6,078,204</u>	<u>5,408,766</u>
Net assets at end of year	\$ <u>7,621,385</u>	\$ <u>6,078,204</u>

See accompanying notes to consolidated financial statements.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Change in restricted net assets	\$ 1,543,181	669,438
Adjustments to reconcile the change in restricted net assets to net cash provided by operations:		
Depreciation and amortization	187,454	208,644
Change in receivables, prepaid, due from affiliates and other assets	(172,330)	(359,970)
Change in accounts payable, accrued expenses and retained dues	66,348	(18,285)
Total adjustments	<u>(118,538)</u>	<u>54,789</u>
Net cash provided by operating activities	<u>1,274,847</u>	<u>722,851</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(50,781)	(19,271)
Purchase of investments	(396,111)	(998,719)
Maturity of certificates of deposits	-	450,000
Net cash used in investing activities	<u>(446,892)</u>	<u>(567,990)</u>
Cash flows from financing activities - payments on notes payable	<u>(131,953)</u>	<u>(604,733)</u>
Net (increase) (decrease) in cash	206,002	(449,769)
Cash, beginning of year	<u>538,994</u>	<u>975,378</u>
Cash, end of year	\$ <u>744,996</u>	\$ <u>525,609</u>
Cash paid during the year for interest	\$ <u>118,142</u>	<u>151,879</u>

See accompanying notes to consolidated financial statements.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(1) Significant Accounting Policies

(a) Principles and Consolidation

The accompanying consolidated financial statements include Louisiana Municipal Association (LMA), its wholly-owned subsidiary Risk Management, Inc. (RMI) and its wholly-owned subsidiary Risk Management Insurance Agency (RMIA). All intercompany transactions and balances have been eliminated.

(b) Organization Background

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.

RMI, a Louisiana corporation, serves as the third-party administrator for the Louisiana Municipal Risk Management Agency (LMRMA) which was formed under Louisiana Act No. 462 of 1979 to provide a program of interlocal risk management for LMA's member municipalities. LMA and RMI are related by common management to LMRMA (Worker's Compensation Fund, Public Liability Fund and Accident and Health Fund), the Louisiana Municipal Reserve Fund (LMRF), and the Louisiana Municipal Association - Unemployment Compensation Fund (LMA-UCF).

RMIA was incorporated in 1992 to act as an agent for purchasing insurance on behalf of member municipalities and others.

(c) Financial Statement Presentation

LMA's net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Currently, LMA has only unrestricted net assets.

LMA reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets are used, restrictions are maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Currently, LMA has not received any gifts of long-lived assets.

(d) Investments

Investments, consisting of U.S. government and agency bonds, are recorded at market value. Unrealized gains and losses on investments in equity securities with readily determinable fair values and all investments in debt securities are recorded in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

restricted by explicit donor stipulations or law. Dividend, interest and other investment income is recorded as increases on unrestricted net assets unless the use is restricted by donor.

(c) Depreciation and Amortization

Depreciation and amortization are computed using straight-line and accelerated methods over the estimated useful lives of the assets as follows:

Buildings	40 years
Building fixtures	5-10 years
Office equipment	3-10 years
Automotive equipment	3-5 years
Land improvements	5 years
Computer equipment and software	3-5 years

(d) dues Income - LMA

Amounts collected in the current year for membership dues for the following year are recorded as deferred income in the current year. Dues for the current year not collected at December 31 are not recorded as income for the current year.

(e) Administrative Fees and Commissions

Amounts earned in the current year are based on an estimate of earned normal premiums of LMPMA, which approximates actual. Any adjustments from estimated earned normal premiums to actual earned normal premiums are adjusted in the year in which they become known.

(f) Consolidated Statements of Cash Flows

For the purposes of the consolidated statements of cash flows, cash includes cash in demand deposit accounts with banks. Certificates of deposit have been excluded from cash because the certificates are normally purchased for periods exceeding 90 days.

(3) Investments

The market value of investments by security type at December 31, 1998 and 1997 are as follows:

	1998	1997
U.S. Government Agency obligations	\$ 451,820	571,799
U.S. Treasury securities	975,661	775,813
	\$ 1,427,481	1,347,612

Investment income of \$85,258 for the year ended December 31, 1998 includes unrealized gains of \$5,667. Investment income of \$73,299 for the year ended December 31, 1997 includes unrealized gains of \$5,873.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(3) Related Party Transactions

(a) Fees and Services

LMA provides services related to the LMRMA's 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 (EMP) or on a per covered participant (PCP) basis. LMA also receives all investment earnings of the Workers' Compensation and Public Liability programs as part of the administrative fee. Amounts have been returned by LMA to the LMRMA based on the Board's discretion. The following schedule depicts administrative fees earned by LMA from LMRMA for the years ended December 31, 1998 and 1997.

	<u>Adminis-</u> <u>trative fee</u> <u>LMA</u>	<u>Net</u> <u>interest</u> <u>earned</u> <u>portion</u>	<u>Total</u> <u>adminis-</u> <u>trative</u> <u>fees</u>	<u>Due From</u> <u>LMRMA</u>
1998:				
Expenses incurred by LMRMA:				
Workers'				
Compensation	\$ 153,976	1,694,686	1,848,662	1,378,260
Public Liability	138,179	1,189,032	1,327,211	1,865,934
Accident and Health	17,123	-	17,123	1,589
	<u>\$ 299,278</u>	<u>2,883,718</u>	<u>3,185,896</u>	<u>2,635,693</u>
1997:				
Expenses incurred by LMRMA:				
Workers'				
Compensation	\$ 175,352	1,197,797	1,373,149	1,090,797
Public Liability	199,180	961,626	1,160,806	892,938
Accident and Health	17,842	-	17,842	1,381
	<u>\$ 392,374</u>	<u>2,159,423</u>	<u>2,551,797</u>	<u>1,985,116</u>

In 1998, LMA's board resolved to rebate \$346,679 and \$292,208 of 1997's earned administrative fees to LMRMA - Workers' Compensation Fund and LMRMA - Public Liability Fund, respectively, to be available to participants for 1997 premium payments. In addition, LMA's board also contributed \$638,685 to LMRMA - Public Liability Fund and \$825,800 to LMRMA - Accident and Health Fund. Total 1998 rebates, reflected as participant funding in the consolidated statements of activities, were \$2,002,533.

In 1997, LMA's board resolved to rebate \$728,000 and \$608,000 of 1996's earned administrative fees to LMRMA - Workers' Compensation Fund and LMRMA - Public Liability Fund, respectively, to be available to participants for 1996 premium payments. In addition, LMA's board also contributed \$51,200 to RMI. Total 1997 rebates, reflected as participant funding in the consolidated statements of activities, were \$2,381,208.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

In 1998, LMA's bond resulted to rebate \$600,000 and \$600,000 of 1997's current administrative fees to LMBMA - Workers' Compensation Fund and LMBMA - Public Liability Fund, respectively, to be available to participants for 1999 premium payments. Total 1998 rebates, reflected as participant funding in the consolidated statements of activities, were \$1,200,000.

LMA provides legal assistance for the various LMA Funds and is reimbursed by the Funds. The legal department earned \$280,862 and \$368,590 from LMBMA during the years ended December 31, 1998 and 1997, respectively.

RMI has a contract with LMBMA to provide service agent services for a percentage of earned normal premiums. Balances and amounts from transactions with LMBMA during the years ended December 31 are as follows:

	<u>1998</u>	<u>1997</u>
Service fees earned	\$ <u>1,548,899</u>	<u>1,671,944</u>
Percent of RMI's total service fees and commissions	<u>84.7%</u>	<u>89.8%</u>
Balance due from LMBMA	\$ <u>514,644</u>	<u>274,077</u>

RMI pays LMA administrative and accounting fees for services performed on its behalf. The total administrative and accounting fees were \$50,000 for the years ended December 31, 1998 and 1997. In addition, beginning January 1, 1995, RMI receives a five percent commission on reinsurance purchased by LMBMA.

LMBMA provides accident and health insurance to LMA and RMI. The total consolidated insurance expense (included in employee benefits) was \$123,591 and \$123,330 for the years ended December 31, 1998 and 1997, respectively.

LMA has agreed to provide up to \$300,000 to RMI to cover future operating losses.

(b) Note Payable

Prior to December 31, 1990, LMA negotiated a demand collateral mortgage note with LMBMA to fund the construction of LMA's office complex. The note bears an interest rate equal to the average investment return yield on LMBMA - Public Liability Fund investments (4.54% and 6.35% at December 31, 1998 and 1997, respectively). LMA incurred interest of \$318,142 and \$454,121 with respect to the note for the years ended December 31, 1998 and 1997, respectively. Current monthly payments of \$28,425 are due the first day of each month based on a 360 month amortization. Collateral for the note is LMA's land and buildings. In both 1998 and 1997, the LMA board gave LMBMA - Public Liability Fund \$493,000 and \$518,248, respectively, as part of the interest distribution to be used as a reduction in the balance of the note.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

The principal balance due at December 31, 1998 was \$1,405,798 with principal payments scheduled as follows:

1998	\$	158,814
2000		164,382
2001		176,025
2002		188,567
2003		201,947
2004 and after		<u>315,985</u>
	\$	<u>1,405,798</u>

10) Land, Building and Equipment

Land, building and equipment consist of the following as of December 31:

	1998	1997
Land	\$ 494,000	494,000
Buildings and leasehold improvements	4,797,986	4,797,986
Furniture and equipment	1,171,323	1,139,526
Vehicles	<u>133,122</u>	<u>166,483</u>
	6,613,680	6,598,023
Accumulated depreciation	<u>(2,236,150)</u>	<u>(2,092,021)</u>
	\$ <u>4,377,530</u>	<u>4,542,998</u>

15) Other Assets

Other assets consist of the following as of December 31:

	1998	1997
Deferred tax benefit	\$ 49,122	49,122
Interest receivable	<u>89,874</u>	<u>17,603</u>
	\$ <u>139,000</u>	<u>139,000</u>

64) Income Taxes

LMA is incorporated as a non-profit organization and has been granted an exemption from income taxes under Section 501(c)(4) of the Internal Revenue Code.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

RMI as a taxable entity had a tax provided in 1996 of \$6,636; no tax was due in 1997. Timing differences between book and taxable income exist due to the liability for estimated future claims processing costs. A deferred tax asset has been recorded at December 31, 1998 and 1997. No tax benefit has been recorded as a result of RMI's net operating loss carryforward.

(7) Multi-employer Pension Plan

All of LMA and RMI's full-time employees participate in Plan A of the Municipal Employee's Retirement System of Louisiana (the Plan), a multiple-employer municipal employees retirement system. The payroll for LMA's employees covered by the Plan for the years ended December 31, 1998 and 1997 was \$652,833 and \$678,948, respectively. Payroll for RMI's employees covered by the Plan for the years ended December 31, 1998 and 1997 was \$752,210 and \$579,814, respectively.

All employees of LMA and RMI are required to participate in the Plan if they are under the age of 60, are full-time employees, and are not participating in another publicly funded retirement system. Any employee can retire provided he or she meets one of the following criteria: any age with 30 or more years of credited service, age 55 with 25 years of credited service, or age 60 with a minimum of 10 years of credited service. Retirees are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of the member's final compensation multiplied by his years of creditable service, not to exceed 180 percent of the member's final salary. Employees become fully vested on reaching 10 years of service. The Plan also provides survivor's and disability benefits. Covered employees are required to contribute a percentage of their salary to the Plan (the rate is determined by the Plan and its Board). Of the total 9.25% contribution required by the employees however, the employees contribute 5%, while LMA and RMI contribute the remainder. The contribution requirement for LMA for the years ended December 31, 1998 and 1997 was \$99,936 and \$103,873, which consisted of \$66,634 and \$69,173 from LMA (including administrative fees), and \$33,302 and \$34,700 from employees, respectively. The contribution requirement for RMI for the years ended December 31, 1998 and 1997 was \$112,832 and \$58,783, which consisted of \$75,321 and \$39,833 from RMI, and \$37,511 and \$18,950 from employees, respectively.

(8) Lease

During 1997, RMI entered into a five-year non-cancelable lease with LMA for the space it conducts its operations in from LMA for \$20,420 per month. The lease has a five-year renewal option exercisable by RMI if notice is given to LMA within thirty days of expiration. During the years ended December 31, 1998 and 1997, RMI paid LMA rent as shown below. In addition, RMI has agreed to act as the leasing agent for LMA's building. As part of this agreement, RMI is entitled to a fee equal to the revenues from rent collected from tenants of the building (excluding RMI's net paid to LMA) less appropriate expenses such as, but not limited to, utilities, repairs and maintenance, and certain insurance coverages. Below is a recap of transactions relating to this rent agreement between LMA and RMI for the years ended December 31, 1998 and 1997.

	1998	1997
RMI's rent paid to LMA (estimated in consolidation)	\$ 280,443	275,800
Rent received by RMI	183,684	(77,319)
Building expenses incurred by RMI	<u>64,336</u>	<u>36,814</u>
Net rental expense	<u>\$ 161,095</u>	<u>275,296</u>

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 1998 and 1997

(9) **Deferred Compensation Plan**

LMA offers its employees a deferred-compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Prior to 1997, all amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (and paid or made available to the employee or other beneficiary) solely the property and rights of LMA (without being restricted to the provisions of benefits under the plan), subject only to the claims of LMA's general creditors. During 1997, LMA modified its plan to qualify under the applicable Internal Revenue Code sections. This qualification protects the assets of the deferred compensation plan from LMA's creditors.

LMA's fiduciary responsibility includes overseeing the use of the plan assets. Prior to the qualification of the plan, participants' rights under the plan are equal to those of general creditors of the Association in an amount equal to the fair market value of the deferred income for each participant. Consequently, as of December 31, 1996, plan assets were recorded on the Association's balance sheet together with a corresponding liability to plan participants. Subsequent to the qualification of the plan, the plan assets have been established in a trust protecting participants' assets and plan assets are no longer included on the Association's balance sheet.

(10) **Claims Processing Payable**

As service agent for the LMRMA, RMI has responsibility for administration of the claims related to the 1995 bond year and prior years. This liability has been estimated based on the costs necessary to fulfill this obligation to continue as service agent for the years for which revenue has been received and recognized.

1866610 M. SCIFIA, ROBERT FERRI AND STEPHEN

Combining Schedule Personal Profile

December 31, 1993 and 1997

Asset	1993				1997			
	Liabilities Member's Assets	Risk Management Fees	Life Insurance and Annuity Benefits	Commuting Benefits	Liabilities Member's Assets	Risk Management Fees	Elimination Benefits	Commuting Benefits
Club								
Memberships	17,029				17,029			17,029
Automobile	1,014	1,014			1,014	1,014		1,014
Life Insurance	2,441,216	2,441,216			2,441,216	2,441,216		2,441,216
Investment Securities	4,017,171	4,017,171		1,000,000	4,017,171	4,017,171	1,000,000	4,017,171
Liability Insurance and Retirement (net)	4,000,747	4,000,747			4,000,747	4,000,747		4,000,747
Other assets	10,000				10,000			10,000
Total assets	11,616,977	11,616,977	0.00%	1,000,000%	11,616,977	11,616,977	1,000,000%	11,616,977
Liabilities and Net Assets								
Liabilities								
Memberships	17,029				17,029			17,029
Automobile	1,014	1,014			1,014	1,014		1,014
Life Insurance	2,441,216	2,441,216			2,441,216	2,441,216		2,441,216
Investment Securities	4,017,171	4,017,171		1,000,000	4,017,171	4,017,171	1,000,000	4,017,171
Liability Insurance and Retirement (net)	4,000,747	4,000,747			4,000,747	4,000,747		4,000,747
Other assets	10,000				10,000			10,000
Total liabilities	11,616,977	11,616,977	0.00%	1,000,000%	11,616,977	11,616,977	1,000,000%	11,616,977
Net Assets								
Memberships								
Automobile								
Life Insurance								
Investment Securities								
Liability Insurance and Retirement (net)								
Other assets								
Total net assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

See accompanying independent auditor's report.

TABLE A.6: ESTIMATED AND OBSERVED SURPLUS COST IN MILLIARDS
 OF EURO FOR THE PERIOD 2007-2010
 (in billions of euros)

	2007		2008		2009		2010	
	Estimated	Observed	Estimated	Observed	Estimated	Observed	Estimated	Observed
Change in estimated net asset value and risk margin								
Administrative/technical provisions	11,072	10,842	-	50,000	10,072	10,072	14,432	14,432
Provisions for reinsurance	1,022	1,022	-	1,022	1,022	1,022	1,022	1,022
Long service contracts	2,222	2,222	-	2,222	2,222	2,222	2,222	2,222
Other provisions	5,000	5,000	-	5,000	5,000	5,000	5,000	5,000
Technical reserves	10,000	10,000	-	10,000	10,000	10,000	10,000	10,000
Other items	1,000	1,000	-	1,000	1,000	1,000	1,000	1,000
Supply to technical solvency	(10,000)	(10,000)	-	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Total reserves and other margins	10,294	10,064	-	50,000	10,072	10,072	14,432	14,432
Equities - general administration	1,000,000	1,000,000	5,000	(5,000)	1,000,000	1,000,000	1,000,000	1,000,000
Reserve allocated to non-admitted net assets	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Participating	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Technical reserves (non-technical)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (total)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (net)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Technical reserves (total)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Technical reserves (net)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (total)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (net)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Technical reserves (total)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Technical reserves (net)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (total)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Reserves allocated to participating (net)	1,000,000	1,000,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000

See accompanying independent auditor report.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Consolidated Financial Statements

March 31, 2008 and 2007

Form 10-K

	2008		2007		2006	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	at March 31, 2008	at March 31, 2008	at March 31, 2007	at March 31, 2007	at March 31, 2006	at March 31, 2006
Cash and cash equivalents	1,707,312	42,000	1,200,000	1,100,000	1,100,000	1,100,000
Accounts receivable	10,000	10,000	10,000	10,000	10,000	10,000
Prepaid expenses	10,000	10,000	10,000	10,000	10,000	10,000
Other assets	10,000	10,000	10,000	10,000	10,000	10,000
Total	1,827,312	72,000	1,330,000	1,330,000	1,330,000	1,330,000
Accounts payable	10,000	10,000	10,000	10,000	10,000	10,000
Accrued expenses	10,000	10,000	10,000	10,000	10,000	10,000
Other liabilities	10,000	10,000	10,000	10,000	10,000	10,000
Total	30,000	30,000	30,000	30,000	30,000	30,000
Total	1,797,312	42,000	1,300,000	1,300,000	1,300,000	1,300,000

See accompanying notes to financial statements.



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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

LMA - UNEMPLOYMENT COMPENSATION FUND

December 31, 1988

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. This 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 7-21-99

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

Financial Statements

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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Suite 2000 One Shell Square
New Orleans, LA 70119-2599

Independent Auditor's 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 (the Fund) as of December 31, 1998 and 1997, and the related statements of revenues, expenses and changes in retained earnings, 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 statements 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 11 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Fund is or will become year 2000 compliant, that the Fund's year 2000 consultation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued a report, dated June 11, 1999, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

KPMG LCP

June 11, 1999



MEMBER FIRM OF THE KPMG NETWORK
A MEMBER OF THE PWC NETWORK

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

Balance Sheet

December 31, 1998 and 1997

Assets	<u>1998</u>	<u>1997</u>
Cash (note 4)	\$ 46,912	-
Investments (note 4)	2,848,230	2,080,799
Reinsurance receivable	61,610	575,754
Accounts receivable	68,846	131,471
Accrued interest receivable	29,275	80,760
	<u>3,084,867</u>	<u>3,778,994</u>
Liabilities and Retained Earnings		
Liabilities:		
Unpaid claims liability (note 5)	\$ 1,877,000	2,046,000
Due to affiliates (note 2)	88,956	70,895
Accounts payable	161,511	191,882
	<u>2,027,467</u>	<u>2,308,995</u>
Retained earnings	<u>1,057,399</u>	<u>146,000</u>
	<u>\$ 3,084,867</u>	<u>\$ 2,778,994</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended December 31, 1998 and 1997

	1998	1997
Operating revenues:		
Premium income	\$ 8,489,200	8,297,179
Investment income	127,388	308,587
Contribution (note 2)(d)	4,000	4,000
Total operating revenues	8,620,588	8,610,046
Operating expenses:		
Administrative fees (note 2)	17,725	13,842
Claims expense (note 2)	3,049,006	7,773,116
Retirement premiums	471,973	353,117
Service agent fees (note 2)	808,330	398,395
Miscellaneous	12,368	4,800
Total operating expenses	4,359,702	8,543,760
Net income	444,359	156,286
Retained earnings, beginning of year	385,000	178,719
Retained earnings, end of year	\$ 1,033,379	335,005

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Net income	\$ 644,379	296,281
Less adjustments for investment income	<u>(127,988)</u>	<u>(108,837)</u>
	<u>516,391</u>	<u>187,444</u>
Adjustments to reconcile net income to net cash provided by operations:		
Decrease (increase) in allowances receivable	512,378	(368,949)
Decrease (increase) in receivables	87,629	(45,214)
Decrease in unpaid claims liability	(173,808)	(20,000)
Increase (decrease) in accounts payable, due to affiliates	<u>(176,307)</u>	<u>289,277</u>
Total adjustments	<u>269,892</u>	<u>(144,886)</u>
Net cash provided by operating activities	<u>786,283</u>	<u>43,558</u>
Cash flows from investing activities:		
Purchase of investments	(1,576,981)	(1,416,689)
Sales/maturities of investments	585,137	1,306,686
Investment interest received	<u>105,127</u>	<u>105,343</u>
Net cash used in investing activities	<u>(886,717)</u>	<u>(1,004,660)</u>
Net increase (decrease) in cash	66,566	(2,798)
Cash, beginning of year	<u>-</u>	<u>2,198</u>
Cash, end of year	\$ <u>66,566</u>	<u>-</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

December 31, 1998 and 1997

10) 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 57:1341-1350, 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 their 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 actuary. 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(a). LMRFA consists of interlocal risk management agencies pooling resources to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. As of both December 31, 1998 and 1997, there were 82 and 72 participating municipalities, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various fund balances are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable GASB 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 are reported at fair value except for short-term and money market investments, consisting primarily of U.S. treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

December 31, 1999 and 1998

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

(d) **Premiums Payable and Amounts Receivable**

Premiums are recognized as income over the life of the policy 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 amounts recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expense is presented as the estimated claims amount in the financial statements.

(f) **Cash and Cash Equivalents**

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

(g) **Reinsurance**

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Further descriptions 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.

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

Notes to Financial Statements

December 31, 1998 and 1997

(A) Income Taxes

The Fund is exempt from Federal income taxes under Sections 7501 and 315(c) of the Internal Revenue Code.

(B) 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 these estimates.

(2) Related Party Transactions

LMA, RMA and LMRMA 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:

	1998	1997
Expenses:		
Administrative fees - LMA (\$5.00 per person per month)	\$ 17,724	13,042
Service agent fees - RMA (\$13.00 for health participants and \$1.30 for dental participants)	405,730	398,694
Due to affiliates:		
LMA	1,399	1,381
RMA	27,371	30,132
	\$ 38,494	31,555

The Fund changed its reference in 1999 as described in note 3.

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

Notes to Financial Statements

December 31, 1998 and 1997

(3) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1998 and 1997:

	1998	1997
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses at beginning of year	\$ 2,810	2,850
Incurred claims and claims adjustment expense-provision for insured events	7,072	8,232
Total incurred claims and claims adjustment expense	9,882	11,082
Less payments - claims and claims adjustment expenses	(7,201)	(3,500)
Total unpaid claims and claims adjustment expenses at end of year	1,686	2,747
Less claims covered by reinsurer	(49)	(72)
Unpaid claims reserve	\$ 1,637	2,675

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 liability insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the period ended December 31, 1998 and 1997.

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

	1998	1997
Insured	\$ 66,912	-
Uninsured	-	-
	\$ 66,912	-

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

Notes to Financial Statements

December 31, 1998 and 1997

There were no demand deposits as December 31, 1997.

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 1999, 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:

		1998	1997	Category
Certificates of deposit	\$	838,000	838,000	-
Money market accounts		807,791	1,347,545	-
U.S. Government Agencies		1,160,821	842,846	1
U.S. Government Treasury securities		777,688	178,288	1
	\$	2,984,300	2,966,679	

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

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

		1998	1997
Due in one year	\$	1,612,999	1,844,538
Due after one year through five years		1,371,301	1,121,061
	\$	2,984,300	2,965,599

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

Notes to Financial Statements

December 31, 1988 and 1990

(5) **Reinsurance Policy Coverage**

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

Subsequent to December 31, 1984, the Fund obtained reinsurance from a commercial insurer to provide the following coverage:

- Item I: Annual aggregate in excess of 125% of annual aggregate amounts.
- Item II: \$500,000 each and every loss in excess of \$100,000 each and every loss.

The commercial reinsurer covered all claims incurred in 1990 and thereafter. No claims for reinsurance are outstanding from LMRFA as of December 31, 1988 and 1990.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT & HEALTH FUND

Year 2000 Disclosure
(Unaudited)

The following is a synopsis of Louisiana Municipal Risk Management Agency - Accident & Health Fund's (the Agency) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) is the administrator of the fund. Risk Management, Inc. (RMI) is the third party administrator of the fund. These parties must be year 2000 compliant for the fund to be compliant. The LMA/AMA Funds, LMA, and RMI are all affiliated through common membership and management control.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1998. The director of RMI began assessing their computer systems in 1996.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. \$15,400 was budgeted in 1999 for computer equipment, and 24,000 was budgeted in 1999 for computer software replacements. The director of RMI hired a computer consultant to assess their computer hardware and software would be year 2000-compliant.

Remediation Stage

All LMA computer hardware and software needed to become year 2000 compliant was purchased and installed in the last quarter of 1999. Written notification from accounting software provider was obtained ensuring compliance. RMI software and hardware were updated in 1998.

Validation/Testing Stage

LMA has assurances from its vendors that its equipment and software are year 2000-compliant. RMI tested their system in February 1999 and performed a final test of the systems in March 1999. All of their systems are now year 2000-compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LMA/AMA is or will be year 2000 ready, that the Agency's remediation effort will be successful in whole or in part, or that parties with whom the Agency does business will be year 2000 ready.



One 800 One Gulf Drive
New Orleans, LA 70119-0001

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

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

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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



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

KPMG LLP

June 11, 1989

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

Financial Statements and Schedule

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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Suite 2000 One Main Street
New Orleans, LA 70002-2500

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, 1998 and 1997, and the related statements of revenues, expenses and changes in retained earnings, 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 aspects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 1998 and 1997, 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 June 11, 1998, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information on page 13 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit it and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Fund is or will become year 2000 compliant, that the Fund's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will become year 2000 compliant.



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 LLP

June 11, 2009

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

Balance Sheet

December 31, 1998 and 1997

Assets	<u>1998</u>	<u>1997</u>
Cash (note 4)	\$ 187,478	\$ 99,328
Investments (note 4)	14,668,310	15,051,264
Debtors/delinquents receivable	85,086	70,878
Accounts receivable	87,243	77,519
Accrued interest receivable	83,804	188,293
Notes receivable (note 2)	<u>1,403,758</u>	<u>1,923,711</u>
	\$ 16,475,669	17,260,793
Liabilities and Retained Earnings		
Liabilities:		
Unpaid claims liability (note 3)	8,379,895	8,121,845
Unearned premiums	2,194,879	2,140,498
Due to affiliates (note 2)	1,875,554	1,481,845
Accrued expenses	<u>3,380</u>	<u>4,877</u>
	11,593,698	12,799,455
Retained earnings	<u>4,881,971</u>	<u>4,461,338</u>
	\$ 16,475,669	17,260,793

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Revenues:		
Premium income	\$ 6,208,240	6,990,701
Investment income (note 2)	1,200,960	1,251,983
Total revenues	<u>7,418,200</u>	<u>8,191,818</u>
Expenses:		
Claims expense (note 3)	4,167,643	4,478,337
Administrative fees (note 2)	1,213,711	1,108,886
Reinsurance premiums (note 3)	1,722,413	1,704,980
Service agent (note 2)	599,324	661,117
Miscellaneous	26,048	79,658
Total expenses	<u>7,638,741</u>	<u>7,832,858</u>
Net income (loss)	<u>(220,521)</u>	<u>358,960</u>
Retained earnings, beginning of year	5,099,834	4,838,718
Retained earnings, end of year	<u>\$ 4,877,313</u>	<u>5,099,834</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net income (loss)	\$ (203,527)	262,116
Loss adjustment for investment income	(1,387,868)	(1,231,583)
	(1,591,395)	(969,467)
Adjustments to reconcile net income to net cash used in operations:		
(Increase) decrease in real estate	(4,024)	53,204
Increase (decrease) in unpaid claims liability	(743,750)	(298,932)
Increase (decrease) in accrued expenses, retained premiums and due to affiliates	103,004	363,735
Total adjustments	(1,170,980)	117,977
Net cash used in operating activities	(2,762,296)	(851,490)
Cash flows from investing activities:		
Purchase of investments	(5,578,400)	(5,107,477)
Maturities of investments	6,178,318	4,286,421
Investment interest received	1,402,514	1,367,368
Principal payments from asset receivable	326,653	803,723
Net cash provided by investing activities	1,170,441	1,038,029
Net increase (decrease) in cash	(411,855)	186,989
Cash, beginning of year	589,128	402,139
Cash, end of year	\$ 177,273	589,128

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

Notes to Financial Statements

December 31, 1998 and 1997

(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 re-insuring 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 (LMRFPA) is formed under Louisiana Revised Statutes 33:1349(c). LMRFPA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFPA is vested in the Executive Board of LMA. LMRFPA reinsures the LMRMA Public Liability Fund. As of both December 31, 1998 and 1997, there were 179 and 194 participating municipalities, respectively.

The various LMRMA Funds, LMA, and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their respective equity amounts 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 18 and GASB 16.

(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 GASB 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 are reported at fair value except for short-term and money market investments, consisting primarily of U.S. treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses on

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

Notes to Financial Statements

December 31, 1998 and 1997

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

(d) **Premium Income and Amounts 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.

Amounts 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 claims 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 reimbursement receivable 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 calculations 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 claims losses and claims expenses are presented at present value in the financial statements. Such reserves have been discounted at 5.8% and 6.0% at December 31, 1998 and 1997, respectively.

(f) **Statement of Cash Flows**

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

(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 retained risks as liabilities unless it is probable that these risks will not be covered by reinsurers. As of May 1, 1988, LMRFA became the reinsurer for the Fund.

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

Notes to Financial Statements

December 31, 1998 and 1997

(b) **Income Taxes**

The Agency is exempt from federal income taxes under Sections 7500 and 119(1) of the Internal Revenue Code.

(c) **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 these estimates.

(ii) **Related Party Transactions**

(a) **Fee 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 named normal premiums (NMP) as follows:

	1998	1997
Expenses:		
Administrative fee - LMA (2% of NMP plus interest earned)	\$ 1,313,301	1,000,000
Service agent - RMI (0.5% of NMP)	\$ 580,324	661,107
Reinsurance - LMRFA (24.5% of NMP)	\$ 1,522,415	1,700,960
Reinsurance recoveries - LMRFA	\$ 2,386,754	607,951
Due to (from) affiliates:		
LMA	\$ 1,005,044	802,538
RMI	87,834	146,457
LMRFA	<u>157,314</u>	<u>433,058</u>
	<u>1,050,234</u>	<u>1,482,053</u>

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

(b) **Note Receivable**

LMA has a variable rate note agreement with the Fund. The note bears an interest rate equal to the average investment return yielded the Fund on its other investments 16.34% and 6.33% at December 31, 1998 and 1997, 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 \$118,342 and \$154,121 in respect to the note for the years ended December 31, 1998 and 1997, respectively. In 1998, the

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

Notes to Financial Statements

December 31, 1988 and 1991

Fund received \$402,000 as part of the 1987 earned interest distribution to be used as a reduction in the balance of the note.

The payments on principal balance due at December 31, 1988 are scheduled as follows:

1989	\$	158,814
1990		164,382
1991		176,815
1992		188,907
1993		201,947
1994 and thereafter		<u>212,860</u>
	\$	<u>1,403,718</u>

(c) *Premium Refunds*

During 1986, the Fund's participants used \$402,656 of cumulative unearned credits. In addition, the Fund received a rebate of \$292,208 from LMA's board related to 1985 earned administrative fees which will be available to participants for 1987 premium payments.

During 1987, the Fund's participants used \$386,990 unearned credits. In addition, the Fund received a rebate of \$896,733 from LMA's board related to 1986 earned administrative fees which will be available to participants for 1988 premium payments. In addition, the Fund received \$518,749 as a reduction in the notes receivable from LMA.

During 1988, the Fund's participants used \$404,372 of unearned credits. In addition, the Fund received a rebate of \$608,000 from LMA's Board related to 1987 earned administrative fees which will be available for participants for 1989 premium payments. In addition, the Fund received \$400,000 as a reduction in the notes receivable from LMA.

(d) *Claims Expense and Unpaid Claims Reserve*

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1988 and 1991:

		<u>1988</u>	<u>1991</u>
		(Amounts in thousands)	
Unpaid claims and claim adjustment expenses at beginning of year	\$	<u>21,175</u>	<u>26,821</u>
Increase claims and claim adjustment expenses:			
Provision for insured events of the current year		6,816	1,000
Decrease in provision for insured events of prior years		<u>(1,442)</u>	<u>(1,716)</u>
Total incurred claims and claim adjustment expenses		<u>4,374</u>	<u>4,284</u>

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

Notes to Financial Statements

December 31, 1998 and 1997

	1998	1997
	(\$ amounts in thousands)	
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ (687)	(655)
Claims and claim adjustment expenses attributable to insured events of prior years	(8,572)	(3,862)
Total payments	(9,259)	(4,517)
Total unpaid claims and claim adjustment expenses at end of year	17,492	21,175
Less discounting at 5.8% and 6.0% for 1998 and 1997, respectively	(3,642)	(3,748)
Less claims covered by reinsure (net of discount)	(9,482)	(9,300)
Unpaid claims reserve	\$ 8,368	\$ 8,127

(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, 1998 and 1997.

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

	1998	1997
Insured	\$ 183,670	299,325
Uninsured	-	-
	\$ 183,670	\$ 299,325

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

Notes to Financial Statements

December 31, 1998 and 1997

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 fair value for investments by security type at December 31, 1998 and 1997 are as follows:

	1998		1997	
	Fair value	Category	Fair value	Category
Certificates of deposit	\$ 180,000	-	\$ 100,000	-
Money market accounts	1,052,878	-	929,127	-
U.S. Government Agency obligations	11,659,006	1	11,059,682	1
U.S. Treasury securities	<u>1,597,626</u>	1	<u>2,841,753</u>	2
	<u>\$ 14,668,730</u>		<u>\$ 15,031,562</u>	

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

	1998	1997
Due in one year	\$ 1,429,065	3,234,360
Due after one year through five years	4,704,295	4,536,799
Due after five years through ten years	2,527,131	2,895,438
Due after ten years	<u>8,211,327</u>	<u>4,685,471</u>
	<u>\$ 14,668,777</u>	<u>15,351,968</u>

The U.S. Government agency obligations investments are direct obligations originated 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, 1998 and 1997 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$3,886,588 and \$4,185,407 as of December 31, 1998 and 1997, respectively. These derivative investments are interest rate sensitive and, as a result, could experience basic market value fluctuations.

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

Notes to Financial Statements

December 31, 1998 and 1997

(5) Reinsurance Policy Coverage

During the periods ended December 31, 1998 and 1997, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following aggregate:

- Item 1: \$1,000,000 annual aggregate excess of 65% of named normal premium
- Item 2: \$400,000 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. 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 \$550,000 from \$500,000. The Fund's coverage remains unchanged.

The following are balance sheets for LMRFA for the years ended December 31, 1998 and 1997:

Assets		<u>1998</u>	<u>1997</u>
Cash	1	180,744	180,744
Investments		29,693,877	27,882,554
Accrued interest receivable		343,194	343,890
Due from affiliates		-	283,713
Reinsurance receivable		<u>408,258</u>	<u>128,806</u>
	1	<u>\$ 30,534,073</u>	<u>29,025,817</u>
Liabilities and Retained Earnings			
Liabilities:			
Deposited claims reserve	5	12,151,000	14,882,000
Reinsurance payable		613,798	380,800
Due to affiliates		63,970	-
Unearned premium		39,182	108,485
Accrued expense		<u>8,542</u>	<u>9,235</u>
		12,875,642	15,380,520
Retained earnings		<u>17,658,431</u>	<u>13,645,297</u>
	5	<u>\$ 30,534,073</u>	<u>29,025,817</u>

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

Year 2000 Disclosure
(Unaudited)

The following is a synopsis of Louisiana Municipal Risk Management Agency's (LMRMA) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) is the administrator of the fund. Risk Management, Inc. (RMI) is the third party administrator of the fund. These parties need to be year 2000 compliant for the fund to be compliant. The LMRMA Fund, LMA, and RMI are all affiliated through common membership and management control.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1998. The director of RMI began assessing their computer system in 1996.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. \$18,400 was budgeted in 1999 for computer equipment, and 24,000 was budgeted in 1999 for computer software replacement. The director of RMI hired a computer consultant to assess their computer hardware and software would be year 2000 compliant.

Remediation Stage

All LMA computer hardware and software needed to become year 2000 compliant was purchased and installed in the first quarter of 1999. Written notification from accounting software provider was obtained ensuring compliance. RMI software and hardware were updated in 1998.

Validation/Testing Stage

LMA has assurance from its vendors that its equipment and software are year 2000 compliant. RMI tested their system in February 1999 and performed a final test of the system in March 1999. All of their systems are now year 2000-compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LMRMA is or will be year 2000 ready, that the Agency's remediation effort will be successful in whole or in part, or that parties with whom the Agency does business will be year 2000 ready.

LOUISIANA MUNICIPAL BOND MARKET IMPROVEMENT DISTRICT
PUBLIC SERVICE DISTRICT

Balance

December 31, 1996

The table below displays the Fund's annual annual governmental investment income (excluding interest on debt) and other income and loss accrued by investment transactions by the Fund over the end of 1996 through the end of the 1996 year.

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
	(\$ thousands)									
1997 governmental income	\$ 1,464	\$ 1,094	\$ 1,129	\$ 960	\$ 1,179	\$ 1,150	\$ 1,179	\$ 1,090	\$ 1,169	\$ 1,000
Operating other investment	3,463	3,490	3,499	3,116	3,243	3,243	3,464	3,463	3,466	3,429
Estimated interest charges and expenses, net of policy gain	4,899	4,563	4,765	4,343	4,996	4,996	4,999	4,999	5,014	4,999
Fund investments net of										
End of policy year	681	681	670	667	636	609	571	601	679	701
One year term	-	1,961	1,779	1,219	1,017	1,017	1,249	994	1,011	911
Two year term	-	-	4,181	4,181	4,253	4,219	4,569	4,551	4,688	4,751
Three year term	-	-	-	9,559	9,419	9,571	9,971	9,841	10,006	10,019
Four year term	-	-	-	-	3,469	3,571	3,541	3,711	3,761	3,811
Five year term	-	-	-	-	-	3,286	3,326	3,399	3,466	3,529
Six year term	-	-	-	-	-	-	3,549	3,511	3,561	3,571
Seven year term	-	-	-	-	-	-	-	3,881	3,886	3,929
Eight year term	-	-	-	-	-	-	-	-	3,481	3,511
Nine year term	-	-	-	-	-	-	-	-	-	3,511
Net estimated interest charges and other expense										
End of policy year	4,899	4,563	4,765	4,343	4,971	4,971	4,971	4,971	5,014	4,971
One year term	-	4,581	4,389	3,419	3,119	3,119	3,311	3,311	3,314	3,319
Two year term	-	-	4,361	4,341	4,319	4,349	4,571	4,571	4,614	4,611
Three year term	-	-	-	9,271	9,119	9,241	9,571	9,471	9,619	9,619
Four year term	-	-	-	-	3,319	3,389	3,371	3,511	3,571	3,611
Five year term	-	-	-	-	-	3,269	3,311	3,371	3,419	3,461
Six year term	-	-	-	-	-	-	3,511	3,471	3,519	3,561
Seven year term	-	-	-	-	-	-	-	3,871	3,879	3,911
Eight year term	-	-	-	-	-	-	-	-	3,471	3,511
Nine year term	-	-	-	-	-	-	-	-	-	3,511
Income by estimated investment items and expense items and policy gain	-	-	-	-	-	-	34	34	11	1

† In Effective January 1, 1996, the Fund accounted for investments over the under bond.

See accompanying independent auditor's report.



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New Orleans, LA 70116-3000

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

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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



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

KPMG LLP

June 11, 1999

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

Financial Statements and Schedule

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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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 LLP

June 11, 1998

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

Balance Sheet

December 31, 1998 and 1997

Assets	1998	1997
Investments (note 4)	\$ 21,053,643	22,033,862
Accounts receivable	1,326,315	1,142,220
Reinsurance receivable (note 5)	953,807	485,170
Accrued interest receivable	<u>258,535</u>	<u>220,797</u>
	\$ <u>23,592,299</u>	<u>23,882,049</u>
Liabilities and Retained Earnings		
Liabilities:		
Unpaid claims liability (note 3)	4,418,000	5,780,800
Due to affiliates (note 3)	1,583,866	1,250,868
Unearned premiums (note 3)	892,985	1,749,857
Accrued expenses	<u>704,634</u>	<u>788,845</u>
	7,600,485	9,570,370
Retained earnings	<u>15,991,813</u>	<u>14,311,679</u>
	\$ <u>23,592,299</u>	<u>23,882,049</u>

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Retained Earnings:

Years ended December 31, 1998 and 1997

	1998	1997
Revenues:		
Premium income	\$ 6,448,011	7,157,218
Excess interest contribution (note 2)	728,000	-
Investment income	1,738,548	1,648,218
Total revenues	8,898,799	8,805,428
Expenses:		
Claims expense (note 3)	1,808,120	1,528,868
Administrative fees (note 3)	1,852,882	1,373,149
Reinsurer premiums (note 2)	644,881	713,722
Service agent fees (note 2)	751,385	641,842
Second injury fund assessment	988,073	79,878
Louisiana workers' compensation assessment	48,810	17,546
Miscellaneous	40,721	46,785
Total expenses	5,135,992	4,564,045
Net income	3,762,807	4,241,383
Retained earnings, beginning of year	14,852,184	10,448,881
Retained earnings, end of year	\$ 18,614,991	14,690,184

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net income	\$ 3,268,429	4,441,863
Less adjustment for investment income	(1,728,348)	(1,648,218)
	2,540,081	2,793,645
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Decrease in receivables	(658,768)	(527,344)
Decrease in unpaid claims liability, net of insurance receivable	(1,588,808)	(1,770,008)
Increase (decrease) in accounts payable, accrued expenses, unearned premiums and due to affiliates	(545,457)	817,697
Total adjustments	(2,892,225)	(1,260,361)
Net cash provided by (used in) operating activities	(352,144)	1,533,284
Cash flows from investing activities:		
Investment interest received	1,217,686	1,824,315
Purchase of investments	(12,468,535)	(6,387,881)
Sale of investments	11,241,991	3,129,780
Net cash provided by (used in) investing activities	(100,858)	(1,433,786)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	-

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

Notes to Financial Statements

December 31, 1998 and 1997

(D) Significant Accounting Policies

(a) Background and Financial Statement Presentation

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 442 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statute 33:1341-1351, all local governmental 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 Statute 33:1355(A). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund. As of both December 31, 1998 and 1997, there were 199 and 188 participating municipalities, respectively.

The various LMRMA Funds, LMA and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various fund balances are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 30 and 14.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting, and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

(c) Investments

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses are

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

Notes to Financial Statements

December 31, 1995 and 1997

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

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

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

(e) **Unpaid Claims Liability**

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited as expenses in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements. The costs associated with new and renewed contracts and acquisition costs are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 5.0% and 6.0% as December 31, 1995 and 1997, respectively.

(f) **Statement of Cash Flows**

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Income certificates of 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 the direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1985, LMRPA became the reinsurer for the Fund.

(h) **Income Taxes**

The Agency is exempt from federal income taxes under Sections 7701 and 11510 of the Internal Revenue Code.

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

Notes to Financial Statements

December 31, 1998 and 1997

(1) 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 these 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>1998</u>	<u>1997</u>
Expenses:		
Administrative fee - LMA (2.45% of ENP plus interest earned)	\$ <u>1,897,662</u>	<u>1,323,148</u>
Service Agent - RMI (8.59% of ENP)	\$ <u>581,308</u>	<u>681,842</u>
Reinsurance - LMRFA (30% of ENP)	\$ <u>644,801</u>	<u>785,722</u>
Due to (from) affiliates:		
LMA	\$ 1,293,268	1,080,247
RMI	(9,642)	76,448
LMRFA	<u>(6,893)</u>	<u>(2,868)</u>
	\$ <u>1,580,856</u>	<u>1,753,856</u>
LMRFA reinsurance recoveries	\$ <u>(63,724)</u>	<u>(88,131)</u>

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

During 1997, LMA's board resolved to rebate \$720,000 of the 1998 earned administrative fees back to the Fund; of the cumulative assumed premium amount, \$314,931 was used by municipalities in the form of credits toward their 1993 earned normal premium payments; outstanding credits of \$233,193 are available to municipalities for their 1995 premium payments and are included in assumed premiums as of December 31, 1997. Also included in assumed premiums is \$700,000 which the Fund will use in the form of a premium reduction to municipalities in 1998.

During 1998, LMA's board resolved to rebate \$600,000 of the 1997 earned administrative fees back to the fund. This amount is included in assumed premiums which the Fund will use in the form of premium reductions to municipalities in 1999. The \$700,000 of 1996 earned administrative fees distributed by LMA in 1997 is included in total revenues at December 31, 1998.

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WOMEN'S COMPENSATION FUND**

Notes to Financial Statements

December 31, 1998 and 1997

(5) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
	<u>(Amounts in thousands)</u>	
Unpaid claims and claim adjustment expenses at beginning of year - prior	\$ 17,572	18,838
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year	2,185	2,489
Increase (decrease) in provisions for insured events of prior years	<u>2,294</u>	<u>(217)</u>
Total incurred claims and claim adjustment expense	<u>4,479</u>	<u>2,272</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	(489)	(1,082)
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(16,679)</u>	<u>(2,624)</u>
Total payments	<u>(17,168)</u>	<u>(3,706)</u>
Total unpaid claims and claim adjustment expenses at end of year	14,686	17,572
Less discounting at 5.8% and 6.0% for 1998 and 1997	(4,524)	(5,431)
Less claims covered by reinsurers (net of discount)	<u>(5,745)</u>	<u>(6,135)</u>
Unpaid claims reserve	\$ <u>4,417</u>	<u>5,786</u>

In addition to the unpaid claims covered by the reinsurers, there are \$185,897 and \$488,151 of paid claims which are recoverable from the reinsurer at December 31, 1998 and 1997, respectively. Settled claims have not exceeded insurance coverage.

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

Notes to Financial Statements

December 31, 1998 and 1997

(4) Deposits and Investments

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these Fund's shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 3% 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, 1998 and 1997.

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 unsecured and unregistered investments for which the securities are held by the broker or dealer's trust department or agent in the Fund's name. Category 3 includes unsecured 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 fair value for investments by security type in December 31, 1998 and 1997 are as follows:

	1998		1997	
	Fair value	Category	Fair value	Category
Certificates of deposit	\$ 100,000	-	100,000	-
Money market accounts	1,347,994	-	3,446,857	-
U.S. Government Agency Obligations	11,262,698	1	11,438,089	1
U.S. Treasury Obligations	18,502,851	1	6,560,030	1
	\$ 20,133,443		21,545,976	

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

Notes to Financial Statements

December 31, 1998 and 1997

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

		1998	1997
Due in one year	\$	3,823,380	2,478,076
Due after one year through five years		11,853,276	7,863,523
Due after five years through ten years		4,302,954	3,968,137
Due after ten years		1,873,833	3,628,546
	\$	21,853,443	20,038,282

Included in investment balances as of December 31, 1998 and 1997 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$2,147,443 and \$4,860,589 as of December 31, 1998 and 1997, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

(2) Reinsurance Policy Coverage

During the periods ended December 31, 1998 and 1997, LMRFA provided reinsurance to the Fund with the following aggregate coverage:

- Item I: \$2,000,000 annual aggregate in excess of 80% of earned annual premium
- Item II: \$2,800,000 each and every loss in excess of \$175,000 each and every loss

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

The following are balance sheets for LMRFA for the years ended December 31, 1998 and 1997.

Assets			1998	1997
Cash	\$	328,326	328,344	
Accrued interest receivable		343,194	343,800	
Due from affiliates		-	563,715	
Investments		28,897,877	27,882,054	
Reinsurance receivable		408,258	128,886	
	\$	30,584,655	29,252,839	

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

Notes to Financial Statements

December 31, 1998 and 1997

Liabilities and Retained Earnings

	1998	1997
Liabilities:		
Unpaid claims reserve	\$ 12,171,000	14,852,000
Reinsurance payable	61,738	380,805
Due to affiliates	62,700	-
Unearned premium	38,182	108,495
Accrued expense	8,347	8,236
	12,850,642	15,580,535
Retained earnings:	17,679,015	13,448,294
	\$ 30,529,657	29,028,829

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

Year 2000 Disclosure
(Unaudited)

The following is a synopsis of Louisiana Municipal Risk Management Agency's (LMRMA) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) is the administrator of the fund. Risk Management, Inc. (RMI) is the third party administrator of the fund. These parties must be year 2000 compliant for the fund to be compliant. The LMRMA, Fund, LMA, and RMI are all affiliated through common membership and management control.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1996. The director of RMI began assessing their computer system in 1996.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. \$13,400 was budgeted in 1999 for computer equipment, and \$4,000 was budgeted in 1999 for computer software replacement. The director of RMI hired a computer consultant to assess their computer hardware and software would be year 2000-compliant.

Remediation Stage

All LMA computer hardware and software needed to become year 2000 compliant was purchased and installed in the first quarter of 1999. Written notification from accounting software provider was obtained assuring compliance. RMI software and hardware were updated in 1998.

Validation/Testing Stage

LMA has assurances from its vendors that its equipment and software are year 2000 compliant. RMI tested their system in February 1999 and performed a final test of the system in March 1999. All of their systems are now year 2000 compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully discernible until the year 2000 and thereafter. Management cannot assure that LMRMA is or will be year 2000 ready, that the Agency's remediation effort will be successful in whole or in part, or that parties with whom the Agency does business will be year 2000 ready.

LOUISIANA ADMINISTRATIVE MANAGEMENT AGENCY
FINANCIAL STATEMENTS

Balance

December 31, 1999

The table below illustrates the Fund's assets (Investments and Investments Income) compared to related liabilities and other expenses incurred by the creation of the unified 1999 and 2000 bid and award bid sheets for the bid sale year.

	1998	1999	1999 ⁽¹⁾	2000	2000	2000	2000	1999	1999	1999
EBF and other assets										
Cash balance	\$ 1,076	3,809	3,264	9,706	9,667	9,866	9,812	1,668	4,664	1,704
Operating assets										
Cash balance	3,527	2,676	3,889	3,368	3,891	3,126	2,629	2,576	2,882	1,832
Investment account										
Cash and expenses, and advisory fee	4,581	4,929	3,681	9,512	9,552	7,981	7,981	4,674	4,709	3,481
Fund investments as of										
End of bid sale year	469	811	771	1,882	1,818	1,982	1,982	1,292	1,576	1,096
One year term	-	1,717	1,218	1,949	1,719	2,188	2,188	2,712	3,081	2,492
Three year term	-	-	1,499	1,206	1,102	1,011	929	788	4,111	3,126
Five year term	-	-	-	1,966	1,976	1,768	1,675	1,716	681	734
Six year term	-	-	-	-	-	1,379	1,368	1,186	2,182	1,212
Ten year term	-	-	-	-	-	1,182	979	939	5,128	4,494
Fixed income fund	-	-	-	-	-	-	8,829	5,188	5,892	6,126
Equity securities	-	-	-	-	-	-	-	8,148	1,161	4,844
Money market	-	-	-	-	-	-	-	-	5,788	1,050
	-	-	-	-	-	-	-	-	-	4,124
Reinvested received										
Share purchase expense										
End of bid sale year	665	4,776	3,111	4,711	4,711	798	797	4,616	4,126	3,471
One year term	-	3,889	2,132	3,711	3,681	1,719	1,616	2,816	3,481	3,471
Three year term	-	-	1,682	1,414	1,414	1,188	1,174	1,176	4,126	3,471
Five year term	-	-	-	1,791	1,681	1,681	1,681	1,716	4,126	3,471
Six year term	-	-	-	-	-	1,182	1,179	1,176	1,181	1,181
Ten year term	-	-	-	-	-	1,182	1,179	1,176	1,181	1,181
Fixed income fund	-	-	-	-	-	-	8,829	1,176	1,181	1,181
Equity securities	-	-	-	-	-	-	-	1,176	1,181	1,181
Money market	-	-	-	-	-	-	-	-	4,711	1,181
	-	-	-	-	-	-	-	-	-	4,897
Reinvested expenses to										
Investment account										
Share purchase expense										
Cash and advisory fee	-	100	21	81	100	111	100	100	81	50

(1) Effective January 1, 2000, the Fund accepted the investment into the value funds.

See accompanying independent auditor's report.



Suite 1600 One Shell Square
New Orleans, LA 70112

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

Officers and Treasurer
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, 1998, and have issued our report thereon dated June 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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



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

KPMG LLP

June 11, 1999

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

Financial Statements and Schedule

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

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Date 2000 Client Staff/Partner
New Orleans, LA 70004-2000

Independent Auditors' Report

Officers and Transfers

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, 1998 and 1997, and the related statements of revenues, expenses and retained earnings, 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 1998 and 1997, 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 June 10, 1999, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information on page 12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Fund is or will become year 2000-compliant, that the Fund's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will become year 2000 compliant.



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.

KPM/G LP

June 11, 1999

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

Balance Sheet

December 31, 1998 and 1997

Asset	1998	1997
Cash (note 4)	\$ 100,326	\$ 908,344
Investments (note 4)	29,683,877	27,892,094
Due from affiliates (note 2), net	-	965,705
Accrued interest receivable	372,194	343,989
Reinsurance receivable	488,258	128,886
	<u>\$ 30,534,655</u>	<u>29,839,018</u>
Liabilities and Retained Earnings		
Liability:		
Municipal claims reserve (note 3)	\$ 12,111,800	14,382,000
Uninsured premiums	39,092	104,486
Reinsurance payable	613,758	580,803
Due to affiliates (note 2)	63,370	-
Accrued expenses	9,342	9,296
Retained earnings, end of year	<u>17,659,842</u>	<u>15,883,329</u>
Retained earnings	<u>17,659,842</u>	<u>15,883,329</u>
	<u>\$ 30,534,655</u>	<u>29,839,018</u>

See accompanying notes to financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

Statements of Revenues, Expenses, and Changes in Retained Earnings

Years ended December 31, 1998 and 1997

	1998	1997
Revenues:		
Premium income (from 2)	\$ 2,962,294	2,468,531
Investment income	2,112,148	2,345,025
Total revenue	4,474,442	5,000,556
Expenses:		
Claims expense (from 3)	(171,694)	2,118,292
Reinsurance premiums expense	764,123	328,736
Miscellaneous	46,237	69,175
Total expenses	(235,663)	2,494,683
Net income	4,238,779	2,505,873
Retained earnings, beginning of year	13,440,294	10,855,281
Retained earnings, end of year	\$ 13,679,053	13,440,294

See accompanying notes to financial statements.

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

Statements of Cash Flow

Years ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities		
Net income	\$ 4,236,719	2,489,899
Less adjustment for investments income	(2,112,148)	(2,535,823)
	2,124,571	(4,852)
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Decrease (increase) in due from affiliates and insurance receivable	286,265	(251,854)
(Decrease) increase in unpaid claims PAYEE	(7,751,089)	938,800
Increase in assumed premium due to affiliates, insurance payable, and account-expense	26,117	(8,531)
Total adjustments	(7,438,707)	688,415
Net cash provided by (used in) operating activities	(5,214,136)	193,548
Cash flows from investing activities:		
Purchase of investments	(11,248,681)	(7,166,241)
Redemption of investments	9,813,827	4,023,558
Investment interest received	1,246,885	2,486,527
Net cash provided by (used in) investing activities	(2,188,069)	(656,156)
Net increase (decrease) in cash	(7,402,205)	(462,608)
Cash, beginning of year	100,344	573,079
Cash, end of year	\$ 92,139	110,471

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

Notes to Financial Statements

December 31, 1998 and 1997

(1) Significant Accounting Policies

(a) Background and Financial Statement Presentation

Louisiana Municipal Reserve Fund Agency (LMRFPA or the Fund) was formed under Louisiana Revised Statutes 33:1348(a). LMRFPA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFPA reinsures the Louisiana Municipal Risk Management Agency (LMBMA) Public Liability, Workers' Compensation, and Accident and Health Funds. LMRFPA also reinsures three municipalities.

LMBMA 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 33:1541-1550, all local governmental subdivisions in the state of Louisiana are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of LMBMA 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 LMRFPA.

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

The various LMBMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various equity accounts are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) Basis of Accounting

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.

(c) Investments

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price, if available; if not available, fair value is based on estimated fair value. Realized gains and losses are

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

Notes to Financial Statements

December 31, 1998 and 1997

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

(d) Premium Income and Due from Affiliates

The premium income of LMRFA, collected in the current year is based on a percentage of annual normal premiums of LMRFA members' compensation and public liability funds (see note 2). For the years ended December 31, 1998 and 1997, LMRFA provided reinsurance directly to municipalities for a total premium of \$125,724 and \$112,423, respectively. The costs associated with new and renewed contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred.

(e) Deposit Claims Liability

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time by which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reimbursements receivable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculations because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements. Such reserves have been discounted at 5.8% and 6.0% at December 31, 1998 and 1997, respectively.

(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 7704 and 515(b) of the Internal Revenue Code.

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

Notes to Financial Statements

December 31, 1998 and 1997

(9) 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 these estimates.

(11) 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 annual normal premiums (ANP) as follows:

	Reinsurance Fee	1998	1997
Reinsurance income:			
LMRFA:			
Public Liability	34.5% ANP	\$ 1,321,415	1,794,868
Workers' Compensation	10.0% ANP	<u>649,803</u>	<u>715,722</u>
		\$ <u>2,467,218</u>	<u>2,470,592</u>
Due (to) from affiliate:			
LMRMA Public Liability		\$ (57,334)	473,630
LMRMA Workers' Compensation		<u>16,036</u>	<u>92,685</u>
		\$ <u>(63,298)</u>	<u>566,315</u>

(12) Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1998 and 1997:

	1998	1997
	(Amounts in thousands)	
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>31,600</u>	<u>19,607</u>
Incurred claims and claim adjustment expenses:		
Provisions for insured events of the current year	2,302	3,601
Decrease in provisions for insured events of prior years	<u>(3,812)</u>	<u>(372)</u>
Total incurred claims and claim adjustment expense	<u>(1,510)</u>	<u>3,229</u>

LOUISIANA MUNICIPAL
RESERVE FUNDED AGENCY

Notes to Financial Statements

December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
	(Amounts in thousands)	
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ -	(140)
Claims and claim adjustment expenses attributable to insured events of prior years	<u>12,879</u>	<u>11,173</u>
Total payments	<u>12,879</u>	<u>11,033</u>
Total unpaid claims and claim adjustment expenses at end of year	17,500	21,990
Less discounting at 5.8% and 6% for 1998 and 1997	<u>(5,369)</u>	<u>(7,008)</u>
Unpaid claims reserve	<u>\$ 12,131</u>	<u>14,982</u>

(d) **Deposits and Investments**

LMBFA 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 3% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 1998 and 1997.

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>1998</u>	<u>1997</u>
Insured	\$ 100,526	100,544
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 100,526</u>	<u>100,544</u>

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

Notes to Financial Statements

December 31, 1998 and 1997

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

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

The fair value for investments by type at December 31, 1998 and 1997, are as follows:

	1998		1997	
	Fair value	Category	Fair value	Category
December 31, 1997:				
Money market accounts	\$ 2,986,342	-	2,402,786	-
U.S. Government Agency Obligations	16,879,372	1	18,768,856	1
U.S. Treasury Obligations	9,584,263	1	7,899,412	1
	\$ 29,449,977		27,982,054	

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

	1998	1997
Due in one year	\$ 7,689,358	6,289,718
Due after one year through five years	11,798,362	8,621,348
Due after five years through ten years	5,210,852	7,028,819
Due after ten years	5,485,655	6,082,874
	\$ 29,449,977	27,982,054

Included in investment balances as of December 31, 1998 and 1997 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$3,257,584 and \$5,221,628 as of December 31, 1998 and 1997, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

Notes to Financial Statements

December 31, 1998 and 1997

(B) Reinsurance Policy Coverage

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

Workers' Compensation Fund

Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium

Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

Public Liability Fund

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

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

Accident and Health Fund

Item I: Annual aggregate in excess of 125% of annual aggregate retention (55% of earned Normal Premiums, based 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, 1999, LMRFA obtained commercial reinsurance for claims as follows:

Workers' Compensation Fund

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

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

No changes were made in the Public Liability Fund coverage.

The LMRMA Accident and Health Fund obtained commercial reinsurance effective January 1, 1999 and is not covered by LMRFA.

LMRMA and LMRFA represent a cooperative program for group bonding 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, 1998, 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.

REQUIRED SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**Year 2000 Disclosure
(Unaudited)**

The following is a synopsis of Louisiana Municipal Reserve Fund Agency's (LMBFA) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) is the administrator of the fund. Risk Management, Inc. (RMI) is the third party administrator of the fund. These parties must be year 2000 compliant for the Fund to be compliant. The LMBFA, Funds, LMA, and RMI are all affiliated through common membership and management control.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1998. The director of RMI began assessing their computer systems in 1998.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. \$15,400 was budgeted in 1999 for computer equipment, and 54,000 was budgeted in 1999 for computer software replacement. The director of RMI hired a computer consultant to assess their computer hardware and software would be year 2000 compliant.

Remediation Stage

All LMA computer hardware and software needed to become year 2000 compliant was purchased and installed in the first quarter of 1999. Written notification from accounting software provider was obtained re: accounting compliance. RMI software and hardware were updated in 1998.

Validation/Testing Stage

LMA has assurances from its vendors that its equipment and software are year 2000 compliant. RMI tested their system in February 1999 and performed a final test of the system in March 1999. All of their systems are now year 2000 compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LMBFA is or will be year 2000 ready, that the Agency's remediation effort will be successful in whole or in part, or that parties with whom the Agency does business will be year 2000 ready.

**LABORERS' BENEFITS
ADMINISTRATIVE EXPENSES**

Schedule

December 31, 1999

The table below illustrates the Trust's assets and liabilities and the corresponding interest rates and expenses reported (based on the duration of the asset) 1996 and each the end of each of the last nine years.

	1996	1997	1998	1999	1996	1997	1998	1999	1999	1999	
					1996		1997		1998		
					Rate		Rate		Rate		
LIABILITIES AND EXPENSES	\$	4,476	5,083	4,443	4,337	4,443	4,891	4,899	3,791	3,269	2,408
Operating costs, expenses	407	483	427	427	30	37	3	4	3	3	3
Investment interest charges and expenses, net of policy gain	2,762	3,083	3,689	3,793	4,344	3,756	4,754	3,735	3,912	3,231	
Fiduciary investment interest policy gain	-	140	-	-	151	151	-	-	-	-	-
Net gain/loss	-	140	-	-	151	151	-	-	-	-	-
At 12/31/96	-	-	30	267	30	267	-	-	-	-	-
1997	-	-	-	3,779	30	3,779	-	-	-	-	-
1998	-	-	-	-	3,756	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
1996	-	-	-	-	-	-	-	-	-	-	-
1997	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
At 12/31/99	-	-	-	-	-	-	-	-	-	-	-
Assets											
Investment interest charges and expenses	1,504	1,424	1,667	1,728	4,144	3,735	4,751	3,735	3,912	3,231	
Net gain/loss	-	140	-	-	151	151	-	-	-	-	-
Fiduciary investment interest policy gain	-	-	1,547	1,547	1,547	1,547	-	-	-	-	-
Net gain/loss	-	-	-	1,547	1,547	1,547	-	-	-	-	-
1997	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
1996	-	-	-	-	-	-	-	-	-	-	-
1997	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
At 12/31/99	-	-	-	-	-	-	-	-	-	-	-
Net assets											
Investment interest charges and expenses, net of policy gain	-	1,484	1,667	1,728	4,144	3,735	4,751	3,735	3,912	3,231	
Net gain/loss	-	140	-	-	151	151	-	-	-	-	-
Fiduciary investment interest policy gain	-	-	1,547	1,547	1,547	1,547	-	-	-	-	-
Net gain/loss	-	-	-	1,547	1,547	1,547	-	-	-	-	-
1997	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
1996	-	-	-	-	-	-	-	-	-	-	-
1997	-	-	-	-	-	-	-	-	-	-	-
1998	-	-	-	-	-	-	-	-	-	-	-
1999	-	-	-	-	-	-	-	-	-	-	-
At 12/31/99	-	-	-	-	-	-	-	-	-	-	-

(1) Effective January 1, 1996, the Trust discontinued the investment in a fixed rate bond.

See accompanying independent auditors' report.



Suite 3600 One Shell Square
New Orleans, LA 70119-3599

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

Offices and Trustees
Louisiana Municipal Reserve Fund Agency

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

KPMG LLP

June 11, 1999



**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Financial Statements

December 31, 1998 and 1997

With Independent Auditors' Report Thereon

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

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Suite 2000 One Shell Square
New Orleans, LA 70112-2000

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, 1998 and 1997, and the related statements of revenues, expenses and changes in retained earnings, 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. These 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 aspects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 1998 and 1997, 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 June 11, 1999, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The year 2000 supplementary information on page 9 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Fund is or will become year 2000-compliant, that the Fund's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Fund does business are or will become year 2000-compliant.

KPMG LLP

June 11, 1999



MEMBER OF THE KPMG NETWORK
A MEMBER FIRM OF THE KPMG NETWORK

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Balance Sheets

December 31, 1998 and 1997

Assets	1998	1997
Cash in banks (note 4)	\$ 75,047	35,840
Accounts receivable	20,799	39,084
Account interest receivable	47,209	38,741
Investments (note 4)	6,302,794	3,857,386
	\$ 6,451,849	3,946,911
Liabilities and Retained Earnings		
Liabilities:		
Accrued expenses	\$ 58,154	6,714
Unpaid claims reserve (note 3)	63,420	43,764
Policyholder dividends payable (note 3)	100,000	-
	221,574	50,478
Retained earnings	6,229,265	3,896,433
	\$ 6,451,849	3,946,911

See accompanying notes to financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Statements of Revenues, Expenses and Changes in Retained Earnings

Years ended December 31, 1998 and 1997

	1998	1997
Revenues:		
Premium income	\$ 81,351	156,013
Investment income	585,596	696,415
Total revenue	666,947	852,428
Expenses:		
Claims expense (note 3)	214,063	158,099
Service agent	22,297	21,085
Policyholder dividend (note 2)	180,000	-
Miscellaneous	1,250	5,130
Total expenses	397,610	176,244
Net income	269,337	676,184
Retained earnings, beginning of year	5,096,433	5,233,349
Retained earnings, end of year	\$ 5,328,466	5,896,433

See accompanying notes to financial statements.

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Statements of Cash Flows

Years ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Net income	\$ 332,575	676,184
Less adjustment for investment income	<u>(288,586)</u>	<u>(695,415)</u>
	<u>(256,011)</u>	<u>(219,231)</u>
Adjustments to reconcile net income to net cash used in operations:		
Decrease in receivables	18,614	17,944
Increase in unpaid claims reserve	19,656	7,587
Increase (decrease) in accrued expenses and policyholder dividend payable	<u>151,448</u>	<u>(7,679)</u>
Total adjustments	<u>190,718</u>	<u>17,852</u>
Net cash used in operating activities	<u>(65,293)</u>	<u>(2,379)</u>
Cash flows from investing activities:		
Purchase of investments	(4,790,685)	(881,257)
Sale or maturity of investments	4,441,658	658,137
Interest income received	<u>435,683</u>	<u>288,187</u>
Net cash provided by (used in) investing activities	<u>186,656</u>	<u>64,067</u>
Net increase (decrease) in cash	41,363	(10,642)
Cash beginning of year	<u>33,640</u>	<u>41,882</u>
Cash end of year	<u>\$ 75,003</u>	<u>\$ 31,240</u>

See accompanying notes to financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

Notes to Financial Statements

December 31, 1998 and 1997

(1) Significant Accounting Policies

(a) *Assignment and Financial Statement Presentation*

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 28:1352. 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, 1998, there were 5,322 participants and 135 participating municipalities. As of December 31, 1997, there were 5,172 participants and 127 participating municipalities.

The Fund and LMA are affiliated through common ownership and management control. Although both of these entities are related parties, their equity is available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 30 and GASB 34.

(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 GASB pronouncements issued on or before November 30, 1998 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

(c) *Cash and Cash Flows*

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are renewed continuously, they are classified as investments. Deposits are carried at cost and are separately displayed on the balance sheets as cash in banks.

(d) *Investments*

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses on investments recorded at fair value are included in investment income. Investments are carried at quoted market prices, as determined by the Fund's investment managers and broker.

Included in investments are certificates of deposit with original maturities of greater than 90 days, deposits in money market accounts, certificates of deposit, investments in U.S. Government Agency Obligations and Treasury and short-term repurchase agreements.

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Notes to Financial Statements

December 31, 1998 and 1997

(f) **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 adjustments to prior years' loss amounts represent 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.

(g) **Income Taxes**

The Fund is exempt from federal income taxes under Sections 7001 and 115(c) 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 these estimates.

(7) **Related Party Transactions**

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

(8) **Claims Expense and Unpaid Claims Reserve**

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 1998 and 1997:

	1998	1997
	(in thousands)	
Unpaid claims and claim adjustment expenses at beginning of year	\$ 44	40
Incurred claims and claim adjustment expenses - provision for unusual events of the current year	214	159

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Notes to Financial Statements

December 31, 1998 and 1997

	1998	1997
	(in thousands)	
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	\$ (131)	(186)
Claims and claim adjustment expenses attributable to insured events of prior years	(44)	(43)
Total payments	(175)	(229)
Total unpaid claims and claim adjustment expenses at end of year	\$ 63	81

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

10) Cash and Investments

Cash in banks is carried at cost. Certificates of deposit, money market accounts and repurchase agreements are included in investments as their average maturity is greater than 90 days and the amounts are re-evaluated 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 as listed below are either insured or secured by collateral as follows:

	1998	1997
Insured	\$ 35,147	33,640
Uninsured	-	-
	\$ 35,147	33,640

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

The Fund's investments are categorized as follows to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes common and

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

Notes to Financial Statements

December 31, 1998 and 1997

registered 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 fair value for investments by security type at December 31, 1998 and 1997 are as follows:

	1998		1997	
	Fair value	Category	Fair value	Category
Money market accounts	\$ 489,668	-	518,449	-
U.S. Government Agency obligations	3,746,216	1	2,635,024	1
U.S. Treasury securities	2,085,910	1	2,673,825	1
	\$ 6,321,794		5,827,306	

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

	1998	1997
Due in one year	\$ 1,151,217	903,799
Due after one year through five years	3,058,635	1,350,356
Due after five years through ten years	1,059,415	1,570,213
Due after ten years	1,662,987	2,613,898
	\$ 6,321,794	5,827,306

Included in investment balances as of December 31, 1998 and 1997 are derivative investments. These investments included U.S. Treasury strips and collateralized mortgage obligations with market values of \$878,834 and \$2,894,145 as of December 31, 1998 and 1997, respectively. These derivative investments are interest rate sensitive, and as a result, could experience significant future market value fluctuations.

REQUIRED SUPPLEMENTARY INFORMATION

**LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND**

**Year 2000 Disclosure
(Unaudited)**

The following is a synopsis of Louisiana Municipal Association – Unemployment Compensation Fund's (the Fund) actions to ensure that our agency is year 2000 compliant. The Louisiana Municipal Association (LMA) is the administrator of the fund. The Fund and LMA are affiliated through common ownership and management control. Therefore, LMA must be year 2000 compliant for the Fund to be compliant.

Awareness Stage

The Deputy Director of LMA began assessing the computer systems in 1998.

Assessment Stage

The Deputy Director of LMA assessed the computer systems and determined which systems needed upgrading to be year 2000 compliant. \$13,000 was budgeted in 1999 for computer equipment, and \$4,000 was budgeted in 1998 for computer software replacement.

Remediation Stage

All LMA computer hardware and software needed to become year 2000 compliant was purchased and installed in the first quarter of 1999. Written verification from accounting software provider was obtained assuring compliance.

Validation/Testing Stage

LMA has assurance from its vendors that its equipment and software are year 2000 compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that LMRMA is or will be year 2000 ready, that the Agency's remediation effort will be successful in whole or in part, or that parties with whom the Agency does business will be year 2000 ready.



Suite 2000 One Shell Square
New Orleans, LA 70119-2000

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

Offices and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund

We have audited the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) as of and for the year ended December 31, 1998, and have issued our report thereon dated June 11, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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



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

KPMG LLP

June 11, 1999