
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, 2003

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

Release Date 6/30/04



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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2003



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 2003 and 2002, and the related statements of revenues, expenses and changes in accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Fund will continue as a going concern. The Fund has experienced significant losses from operations and has a substantial deficit at December 31, 2003. These conditions raise substantial doubt about the Fund's ability to continue as a going concern. Management's plans regarding these matters are discussed Note 6 to the financial statements. The accompanying financial statements do not include any adjustments that might result for the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 6, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

	<u>2003</u>	<u>2002</u>
Cash (note 4)	\$ 64,334	\$ 87,133
Investments (note 4)	-	597,332
Accrued interest receivable	-	1,354
Accounts receivable	225,531	49,850
Reinsurance receivable	82,017	353,934
	<u>\$ 371,882</u>	<u>\$ 1,089,603</u>

LIABILITIES AND ACCUMULATED DEFICIT

Liabilities:		
Unpaid claims liability (note 3)	\$ 1,598,000	\$ 1,552,000
Accounts payable	224,824	442,784
Due to affiliates (note 2)	358,634	129,298
	<u>2,181,458</u>	<u>2,124,082</u>
Accumulated deficit	<u>(1,809,576)</u>	<u>(1,034,479)</u>
	<u>\$ 371,882</u>	<u>\$ 1,089,603</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN ACCUMULATED DEFICIT
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
<u>REVENUES:</u>		
Premium income	\$ 11,292,767	\$ 10,022,449
Investment income (note 4)	4,439	26,313
	11,297,206	10,048,762
<u>EXPENSES:</u>		
Claims expense (note 3)	10,601,046	9,318,366
Reinsurance premiums	686,709	909,319
Service agent fees (note 2)	764,092	607,744
Administrative fees (note 2)	17,129	17,173
Miscellaneous	3,327	4,992
	12,072,303	10,857,594
<u>NET LOSS</u>	(775,097)	(808,832)
Accumulated deficit, beginning of year	(1,034,479)	(225,647)
Accumulated deficit, end of year	\$ (1,809,576)	\$ (1,034,479)

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net loss	\$ (775,097)	\$ (808,832)
Less adjustment for investment income	(4,439)	(26,313)
Adjustments to reconcile net loss to net cash used in operations:		
Change in reinsurance receivable	271,917	271,398
Change in receivables	(175,681)	189,429
Change in unpaid claims liability	46,000	-
Change in accounts payable, and due to affiliates	11,376	100,876
Net cash used in operating activities	(625,924)	(273,442)
Cash flows from investing activities:		
Purchase of investments	-	(203,756)
Proceeds from sales/maturities of investments	594,883	439,457
Investment interest received	8,242	40,006
Net cash provided by investing activities	603,125	275,707
Net change in cash	(22,799)	2,265
Cash, beginning of year	87,133	84,868
Cash, end of year	\$ 64,334	\$ 87,133

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

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

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

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

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. Effective January 1, 2003, LMRFA provides reinsurance for the Fund.

As of December 31, 2003 and 2002, there were 64 and 65 participating municipalities with a total number of participants of approximately 2,329 and 2,370, 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 retained earnings are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

(b) *Basis of Accounting*

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



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

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

(c) ***Investments***

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

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

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

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

(e) ***Unpaid Claims Liability***

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

(f) ***Cash and Cash Equivalents***

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



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Reinsurance

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

(h) Income Taxes

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

(i) Use of Estimates

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

2. RELATED PARTY TRANSACTIONS

LMA and RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. Effective January 1, 2003, the LMRFA began serving as the Fund's reinsurer. The fees incurred by the Fund for these services and related balances owed are as follows:

	<u>2003</u>	<u>2002</u>
Expenses:		
Administrative fees – LMA (\$.60 per person per month)	\$ <u>17,129</u>	\$ <u>17,173</u>
Service agent fees – RMI (\$25.95 in 2003 and \$20.25 in 2002 for health and \$1.20 for dental participants)	\$ <u>764,092</u>	\$ <u>607,744</u>
Reinsurance expense – LMRFA (\$20.43 per person in 2003 for health participants)	\$ <u>583,513</u>	\$ <u>-</u>
Reinsurance commission – RMI (\$3.61 per person in 2003 for health participants)	\$ <u>103,196</u>	\$ <u>-</u>



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS (continued)

	2003	2002
Due to affiliates:		
LMA	\$ 1,394	\$ 1,454
LMRFA	240,000	-
RMI	117,240	127,844
	\$ 358,634	\$ 129,298

Amounts due to LMRFA represent funds borrowed for cash flow purposes. The Board of Trustees have authorized up to \$500,000 in borrowings which are unsecured and non-interest bearing. See Note 6.

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

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

	2003	2002
	(Amounts in thousands)	
Unpaid claims and claim adjustment expenses liability at beginning of year	\$ 1,552	\$ 1,552
Incurred claims and claim adjustment expense-provision for insured events	10,601	9,318
Less payments – claims and claim adjustment expenses	(10,555)	(9,318)
Unpaid claims liability, end of year	\$ 1,598	\$ 1,552

Settled claims have not exceeded aggregate insurance coverages in any of the past two fiscal years.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the years ended December 31, 2003 and 2002.

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

	2003	2002
Insured	\$ 64,334	\$ 87,133
Uninsured	-	-
	\$ 64,334	\$ 87,133

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$0 and \$588,662 at December 31, 2003 and 2002, respectively. The estimated fair value of investments by security type at December 31, 2003 and 2002 are as follows:

	2003	2002	Category
Money market accounts and repurchase agreements	-	\$262,238	-
U.S. Government Agency obligations	-	309,422	1
U.S. Treasury securities	-	25,672	1
	-	\$597,332	



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

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

Investment income for the years ended December 31, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 6,886	\$ 28,032
Realized gains (losses) – net	(2,447)	648
Unrealized losses arising during the year	-	(2,367)
	<u>\$ 4,439</u>	<u>\$ 26,313</u>

5. **REINSURANCE POLICY COVERAGE**

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

Effective January 1, 2003, the Fund obtained reinsurance from LMRFA provide the following coverage:

- Item I: Annual aggregate in excess of 125% of annual earned normal premium.
- Item II: \$900,000 specific losses in excess of \$100,000 each and every loss.

Amounts paid to LMRFA were obtained at discounted rate compared to what was provided by a commercial insurer in prior years. See Note 2 for details on amounts paid to LMRFA for reinsurance coverage.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

6. GOING CONCERN

The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Fund as a going concern. At December 31, 2003, the Fund reported a deficit of \$1,809,576 and incurred net loss of \$775,097 for the year then ended. The Fund has depleted its cash and invested assets and has been required to borrow from a related party in order to meet its claim obligations as they become due.

The Fund has continued to implement premium rate increases and benefit reductions each year in order to meet the continued increase in claims cost and medical inflation. Management implemented additional rate increases and member benefits reductions effective January 1, 2003 as well as changed its reinsurer as measures to return the Fund to profitability. Management expects that continued premium increases and reductions in covered benefits will be implemented sufficient to return the Fund to profitability and to eliminate the Fund's deficit over a reasonable period of time. However, no assurances can be given that the Fund can achieve near term profitability and cash flow improvement or that the deficit can be eliminated in a manageable period of time.

Additionally, during 2003, the Board of Trustees established a \$500,000 limit in which the Fund could borrow operating funds from LMRFA. In a special meeting on March 17, 2004, the Board established the maximum borrowings as a trigger to initiate an orderly shutdown of the Fund. The shutdown process is expected to require a funding from LMA in order to pay all unreported liabilities so that participating municipalities would not be subjected to a loss under the program.

If the Fund is unable to meet its obligations as they become due and a managed shut down is not successful, participating members would become responsible for their respective outstanding claims obligations. The Board has established a plan to bear the responsibility for all costs related to the shut down process.





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

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

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2003



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 2003 and 2002, 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 auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 6, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2003 and 2002 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.

Baton Rouge, Louisiana
May 6, 2004

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

	2003	2002
Cash (note 4)	\$ -	\$ 49,784
Investments (note 4)	12,930,575	12,795,160
Deductibles receivable	254,648	267,443
Accounts receivable	1,400,829	582,410
Accrued interest receivable	137,487	129,980
Reinsurance receivable (note 3)	345,376	657,280
	\$ 15,068,915	\$ 14,482,057

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Outstanding checks in excess of cash balances	\$ 284,077	\$ -
Unpaid claims liability (note 3)	7,806,000	7,516,000
Unearned premiums	1,781,926	1,711,334
Due to affiliates - net (note 2)	1,316,447	934,296
Accrued expenses	19,303	23,285
	11,207,753	10,184,915
Total Liabilities	11,207,753	10,184,915
 Retained earnings	 3,861,162	 4,297,142
	\$ 15,068,915	\$ 14,482,057

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, 2003 AND 2002

	2003	2002
<u>REVENUES</u>		
Premium income	\$ 7,799,444	\$ 5,949,375
Investment income (note 4)	347,937	1,286,423
	8,147,381	7,235,798
<u>EXPENSES</u>		
Claims expense (note 3)	4,792,845	4,423,650
Administrative fees (note 2)	925,542	727,485
Reinsurance premiums (note 2)	1,903,973	1,496,542
Service agent fees (note 2)	936,152	997,695
Miscellaneous	24,849	30,805
	8,583,361	7,676,177
Net loss	(435,980)	(440,379)
Retained earnings, beginning of year	4,297,142	4,737,521
Retained earnings, end of year	\$ 3,861,162	\$ 4,297,142

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net loss	\$ (435,980)	\$ (440,379)
Less adjustment for investment income	(347,937)	(1,286,423)
Adjustments to reconcile net loss to net cash used in operations:		
Change in receivables	(1,117,528)	(170,900)
Change in unpaid claims liability	290,000	87,000
Change in checks written in excess of cash balances	284,077	-
Change in accrued expenses, unearned premiums and due to affiliates	448,761	240,463
	(878,607)	(1,570,239)
Cash flows from investing activities:		
Purchases of investments	(5,695,442)	(5,855,827)
Proceeds from sales and maturities of investments	5,285,483	6,130,497
Investment interest received	614,974	639,458
Principal payments from note receivable	-	396,890
	205,015	1,311,018
Net cash provided by investing activities	205,015	1,311,018
Net change in cash	(673,592)	(259,221)
Cash, beginning of year	49,784	309,005
Cash, end of year	\$ -	\$ 49,784

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2003 and 2002, there were 239 and 201 participating municipalities, respectively.

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

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

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

The various LMRMA and LMRFA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various retained earnings 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 estimated fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations and U.S. Treasury securities and are held for long-term purposes.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

(e) ***Unpaid Claims Liability***

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements. Claims reserves were discounted to 5.4% and 5.8% at December 31, 2003 and 2002, 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 to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

(h) ***Income Taxes***

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



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

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

(i) *Use of Estimates*

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

(j) *Reclassifications*

Certain items in the 2002 financial statements have been reclassified to be comparative to the 2003 presentation.

2. **RELATED PARTY TRANSACTIONS**

(a) *Fees and Services*

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

	<u>2003</u>	<u>2002</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP)	\$ <u>925,542</u>	\$ <u>727,485</u>
Service agent - RMI (9% and 12.0% of ESP)	\$ <u>936,152</u>	\$ <u>997,695</u>
Reinsurance - LMRFA (18.0% of ESP)	\$ <u>1,903,973</u>	\$ <u>1,496,542</u>
Reinsurance recoveries from LMRFA	\$ <u>1,331,655</u>	\$ <u>1,740,730</u>
Due to affiliates:		
LMA	\$ 685,542	\$ 487,485
RMI	-	223,138
LMRFA	630,905	223,673
	<u>\$ 1,316,447</u>	<u>\$ 934,296</u>

(b) *Note Receivable*

LMA had a variable rate note agreement with the Fund which was secured by a building owned by LMA. During 2002, LMA repaid the remaining balance of this note. The Fund earned interest of \$0 and \$16,062 in respect to the note for the years ended December 31, 2003 and 2002, respectively.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2003 and 2002:

	2003	2002
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 16,957	\$ 14,940
Less: Reinsurance recoverables	9,441	7,511
Liability for unpaid losses at beginning of year (net)	7,516	7,429
Net incurred related to:		
Current year	4,094	3,243
Prior years	699	1,001
Total incurred	4,793	4,424
Net paid related to:		
Current year	697	693
Prior years	3,806	3,644
Total paid	4,503	4,337
Liability for unpaid losses at end of year (gross)	17,653	16,957
Reinsurance recoverables	9,847	9,441
Liability for unpaid losses at end of year (net)	\$ 7,806	\$ 7,516

In addition to the unpaid claims covered by the Fund's reinsurer, there are \$345,376 and \$657,280 of paid claims which are recoverable from the reinsurer at December 31, 2003 and 2002, respectively.

The Fund's claims payable have been discounted for December 31, 2003 and 2002, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.4% and 5.8%, respectively, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$797,000 and \$681,000 at December 31, 2003 and 2002, respectively.

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these agencies shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund was in compliance with these revised provisions as of and during the period ended December 31, 2003 and 2002.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

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.

	2003	2002
Insured	\$ -	\$ 49,784
Uninsured	-	-
	\$ -	\$ 49,784

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$12,472,927 and \$12,007,698 at December 31, 2003 and 2002, respectively. The estimated fair value of investments by security type at December 31, 2003 and 2002 are as follows:

	2003	2002	<u>Category</u>
Money market accounts	\$ 71,441	\$ 114,878	-
U.S. Government Agency obligations	12,795,462	12,614,876	1
U.S. Treasury securities	63,672	65,406	1
	\$ 12,930,575	\$12,795,160	

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. 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 are derivative financial investments. These investments may include U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. These derivative investments are interest rate sensitive and, as a result, could experience future market fluctuations.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

The scheduled contractual maturities of investments held at December 31, 2003 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 71,441	\$ 71,441
Due after one year through five years	6,384,807	6,594,108
Due after five years through ten years	2,000,827	2,202,469
Due after ten years	<u>4,015,852</u>	<u>4,062,557</u>
	<u>\$ 12,472,927</u>	<u>\$ 12,930,575</u>

Investment income for the years ended December 31, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 622,481	\$ 665,989
Realized gains -- net	80,140	61,809
Unrealized gains (losses) arising during the year - net	<u>(354,684)</u>	<u>558,625</u>
	<u>\$ 347,937</u>	<u>\$ 1,286,423</u>

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2003 and 2002, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

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

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

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

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

The following are condensed balance sheets for LMRFA at December 31:

	<u>2003</u>	<u>2002</u>
Assets	\$ 40,706,398	\$ 39,476,960
Liabilities	<u>(14,834,265)</u>	<u>(14,867,510)</u>
Retained Earnings	<u>\$ 25,872,133</u>	<u>\$ 24,609,450</u>



SUPPLEMENTAL INFORMATION



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

SCHEDULE

DECEMBER 31, 2003

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2003 and as of the end of each of the last nine years.

	2003	2002	2001	2000	1999	1998	1997 ⁽¹⁾	1996	1995	1994
	(in thousands)									
ENP and investment income	\$ 8,147	\$ 7,236	\$ 6,547	\$ 6,724	\$ 5,923	\$ 7,416	\$ 8,198	\$ 7,729	\$ 7,605	\$ 7,179
Operating costs unallocated	3,791	3,253	2,853	2,766	2,438	3,452	3,497	3,499	3,376	3,213
Estimated incurred claims and claims expense, end of policy year	4,542	4,686	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976
Paid (cumulative) as of:										
End of policy year	697	693	578	499	460	687	655	630	463	528
One year later	-	1,496	1,358	1,079	1,341	1,354	1,362	1,379	1,216	1,625
Two years later	-	-	2,450	1,804	2,574	2,528	2,343	2,137	2,815	2,482
Three years later	-	-	-	2,357	3,189	3,228	3,146	2,999	3,524	3,119
Four years later	-	-	-	-	3,602	3,604	3,570	3,432	3,696	3,400
Five years later	-	-	-	-	-	3,870	3,865	3,765	4,174	3,510
Six years later	-	-	-	-	-	-	3,963	3,838	4,202	3,630
Seven years later	-	-	-	-	-	-	-	4,022	4,390	3,710
Eight years later	-	-	-	-	-	-	-	-	4,447	3,786
Nine years later	-	-	-	-	-	-	-	-	-	3,853
Re-estimated incurred claims and claims expense:										
End of policy year	4,542	4,686	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976
One year later	-	4,245	3,812	3,225	3,633	3,950	4,545	4,583	4,243	3,976
Two years later	-	-	3,854	3,062	3,917	4,065	3,769	4,583	4,243	3,976
Three years later	-	-	-	3,114	3,991	4,140	3,969	3,763	4,243	3,976
Four years later	-	-	-	-	4,007	4,281	4,136	4,044	4,117	3,976
Five years later	-	-	-	-	-	4,204	4,251	4,062	4,436	3,782
Six years later	-	-	-	-	-	-	4,160	4,139	4,456	3,839
Seven years later	-	-	-	-	-	-	-	4,176	4,570	3,853
Eight years later	-	-	-	-	-	-	-	-	4,551	3,909
Nine years later	-	-	-	-	-	-	-	-	-	3,921
Increase(decrease) in estimated incurred claims and expense from end of policy year	-	441	101	115	1,019	165	(385)	(407)	308	(55)

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

See accompanying independent auditors' report.





Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States

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

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2003



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2003 and 2002, 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 auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 6, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2003 and 2002, has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

	<u>2003</u>	<u>2002</u>
Investments (note 4)	\$ 30,004,934	\$ 29,382,241
Accounts receivable	1,834,167	1,631,700
Reinsurance receivable (note 3)	120,571	115,824
Accrued interest receivable	323,161	329,513
	<u>\$ 32,282,833</u>	<u>\$ 31,459,278</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:

Unpaid claims liability (note 3)	\$ 5,384,000	\$ 4,083,000
Unearned premiums	915,268	582,562
Due to affiliates - net (note 2)	667,598	260,339
Accounts payable and accrued expenses	1,117,991	879,271
	<u>8,084,857</u>	<u>5,805,172</u>
Retained earnings	<u>24,197,976</u>	<u>25,654,106</u>
	<u>\$ 32,282,833</u>	<u>\$ 31,459,278</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, 2003 AND 2002

	2003	2002
<u>REVENUES:</u>		
Premium income	\$ 4,831,840	\$ 4,283,725
Investment income (note 4)	758,255	2,527,146
	5,590,095	6,810,871
<u>EXPENSES:</u>		
Claims expense (note 3)	4,698,793	2,326,464
Administrative fees (note 2)	721,094	472,958
Service agent fees (note 2)	502,801	540,524
Reinsurance premiums (note 2)	576,875	378,367
Second Injury Fund assessment	369,197	200,626
Office of Workers' Compensation assessment	129,202	52,002
Miscellaneous	48,263	48,839
	7,046,225	4,019,780
Total expenses	7,046,225	4,019,780
Net (loss) income	(1,456,130)	2,791,091
Retained earnings, beginning of year	25,654,106	22,863,015
Retained earnings, end of year	\$ 24,197,976	\$ 25,654,106

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net (loss) income	\$ (1,456,130)	\$ 2,791,091
Less adjustment for investment income	(758,255)	(2,527,146)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operations:		
Change in receivables and reinsurance receivable	(207,214)	(74,066)
Change in unpaid claims liability	1,301,000	(212,000)
Change in accounts payable, accrued expenses unearned premiums and due to affiliates	978,685	957,888
Net cash (used in) provided by operating activities	(141,914)	935,767
Cash flows from investing activities:		
Investment interest received	1,567,318	1,720,809
Purchases of investments	(10,360,370)	(8,860,588)
Proceeds from sales and maturities of investments	8,934,966	6,204,012
Net cash provided by (used in) investing activities	141,914	(935,767)
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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund, after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2003 and 2002, there were 199 and 203 participating municipalities, respectively.

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(b) *Basis of Accounting*

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



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

(c) ***Investments***

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

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

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

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

(e) ***Unpaid Claims Liability***

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the liability coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements. The costs associated with new and renewed contracts and acquisition costs are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 5.4% and 5.8% at December 31, 2003 and 2002, respectively.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

(f) Statement of Cash Flows

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because 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, 1986, LMRFA became the reinsurer for the Fund.

(h) Income Taxes

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

(i) Insurance Related Assessments

The Fund is subject to assessments made by the Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognizes these assessments as expense when related claim benefits are incurred rather than paid. Changes in assessment rates are adjusted in the year such information is available.

(j) Use of Estimates

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

(k) Reclassifications

Certain items in the 2002 financial statements have been reclassified to be comparative to the 2003 presentation.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

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 standard premiums (ESP) as follows:

	<u>2003</u>	<u>2002</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP)	\$ 721,094	\$ 472,958
Service Agent - RMI (6% and 10.0% of ESP, respectively)	\$ 502,801	\$ 540,524
Reinsurance - LMRFA (7.0% of ESP)	\$ 576,875	\$ 378,367
Reinsurance recoveries from LMRFA	\$ 444,334	\$ 413,192
Due to affiliate:		
LMA	\$ (421,094)	\$ (172,958)
RMI	-	(39,385)
LMRFA	(246,504)	(47,996)
	<u>\$ (667,598)</u>	<u>\$ (260,339)</u>

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 9,021	\$ 9,107
Less: Reinsurance recoverables	4,938	4,812
Liability for unpaid losses at beginning of year (net)	<u>4,083</u>	<u>4,295</u>
Net incurred related to:		
Current year	3,282	1,959
Prior years	1,416	367
Total incurred	<u>4,698</u>	<u>2,326</u>
Net paid related to:		
Current year	1,076	643
Prior years	2,321	1,895
Total paid	<u>3,397</u>	<u>2,538</u>
Liability for unpaid losses at end of year (gross)	17,456	9,021
Reinsurance recoverables	12,072	4,938
Liability for unpaid losses at end of year (net)	<u>\$ 5,384</u>	<u>\$ 4,083</u>



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

In addition to the unpaid claims covered by the reinsurers, there are \$120,571 and \$115,824 of paid claims which are recoverable from the reinsurer at December 31, 2003 and 2002, respectively.

The Fund's claims payable have been discounted for December 31, 2003 and 2002, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.4% and 5.8% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$1,170,000 and \$923,000 at December 31, 2003 and 2002, respectively.

4. DEPOSITS AND INVESTMENTS

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these Fund's shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2003 and 2002.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are money market accounts and repurchase agreements. During 1995, the Fund changed its policy of maintaining a cash account into wire-transferring cash as needed from investments to support disbursements. Consequently, a zero cash balance is now maintained.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$29,217,524 and \$27,779,416 at December 31, 2003 and 2002, respectively. The estimated fair value of investments by security type at December 31, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>	<u>Category</u>
Money market accounts	\$ 1,201,726	\$ 1,298,687	-
U.S. Government Agency Obligations	12,770,485	11,152,085	1
U.S. Treasury obligations	<u>16,032,723</u>	<u>16,931,469</u>	1
	<u>\$ 30,004,934</u>	<u>\$ 29,382,241</u>	



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Included in investment balances as of December 31, 2003 and 2002 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

The scheduled contractual maturities of investments held at December 31, 2003 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 2,508,958	\$ 2,516,416
Due after one year through five years	10,922,365	11,414,360
Due after five years through ten years	11,241,920	11,378,083
Due after ten years	4,544,281	4,696,075
	<u>\$ 29,217,524</u>	<u>\$ 30,004,934</u>

Investment income for the years ended December 31, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 1,427,935	\$ 1,485,246
Realized gains – net	145,735	129,178
Unrealized gains (losses) arising during the year	<u>(815,415)</u>	<u>912,722</u>
	<u>\$ 758,255</u>	<u>\$ 2,527,146</u>

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2003 and 2002, LMRFA provided excess reinsurance to the Fund with the following limits:

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

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.



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

The following are condensed balance sheets for LMRFA at December 31, 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Assets	\$ 40,706,398	\$ 39,476,960
Liabilities	<u>(14,834,265)</u>	<u>(14,867,510)</u>
Retained earnings	<u>\$ 25,872,133</u>	<u>\$ 24,609,450</u>

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

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

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

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



SUPPLEMENTAL INFORMATION



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

**SCHEDULE
DECEMBER 31, 2003**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2003 and as of the end of each of the last nine years.

	2003	2002	2001	2000	1999	1998	1997	1996 ⁽¹⁾	1995	1994
	(in thousands)									
ENP and investment income	\$ 5,590	\$ 6,811	5,566	\$ 5,801	\$ 4,369	\$ 8,896	\$ 8,805	\$ 8,094	\$ 9,506	\$ 9,569
Operating costs, unallocated	2,347	1,693	1,452	1,445	1,502	3,327	2,836	2,889	3,380	2,991
Estimated incurred claims and expense, end of policy year	3,589	2,146	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352
Paid (cumulative) as of:										
End of policy year	1,076	643	499	716	463	469	811	725	1,007	819
One year later	-	1,533	1,093	1,475	1,074	1,067	1,377	1,218	1,940	1,736
Two years later	-	-	1,358	1,965	1,424	1,459	1,726	1,280	2,276	2,137
Three years later	-	-	-	2,089	1,499	1,541	1,937	1,376	2,480	2,456
Four years later	-	-	-	-	1,625	1,654	2,037	1,388	2,620	2,511
Five years later	-	-	-	-	-	1,790	2,155	1,449	2,693	2,633
Six years later	-	-	-	-	-	-	2,308	1,482	2,740	2,671
Seven years later	-	-	-	-	-	-	-	1,489	2,783	2,693
Eight years later	-	-	-	-	-	-	-	-	2,850	2,708
Nine years later	-	-	-	-	-	-	-	-	-	2,713
Re-estimated incurred claims and claims expense:										
End of policy year	3,589	2,146	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352
One year later	-	2,554	1,760	2,821	1,638	1,811	5,409	5,811	6,413	6,670
Two years later	-	-	1,874	2,606	1,792	2,078	2,342	5,882	6,413	6,670
Three years later	-	-	-	2,600	1,884	2,051	2,311	1,664	6,593	6,670
Four years later	-	-	-	-	1,956	2,005	2,363	1,601	3,038	6,670
Five years later	-	-	-	-	-	2,123	2,446	1,601	3,031	2,906
Six years later	-	-	-	-	-	-	2,539	1,641	3,071	2,916
Seven years later	-	-	-	-	-	-	-	1,632	3,002	2,922
Eight years later	-	-	-	-	-	-	-	-	3,028	2,897
Nine years later	-	-	-	-	-	-	-	-	-	2,902
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	408	174	416	483	(2,498)	(2,440)	(4,179)	(3,484)	(3,450)

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

See accompanying independent auditors' report.





Postlethwaite & Netterville

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

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

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

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LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2003



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Reserve Fund Agency

We have audited the accompanying balance sheets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 2003 and 2002 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 auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 6, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information pertaining to the years ended December 31, 2003 and 2002 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**BALANCE SHEETS
DECEMBER 31, 2003 AND 2002**

ASSETS

	<u>2003</u>	<u>2002</u>
Cash (note 4)	\$ 94,095	\$ 100,096
Investments (note 4)	39,025,011	38,211,037
Accrued interest receivable	412,840	411,298
Other receivables	39,779	5,604
Due from affiliates (note 2)	1,117,408	526,868
Reinsurance receivable	17,265	222,057
	<u>\$ 40,706,398</u>	<u>\$ 39,476,960</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims liability (note 3)	\$ 14,785,000	\$ 14,379,000
Unearned premiums	37,711	32,023
Accrued expenses	11,554	456,487
	<u>14,834,265</u>	<u>14,867,510</u>
 Total Liabilities		
	14,834,265	14,867,510
 Retained earnings	<u>25,872,133</u>	<u>24,609,450</u>
	<u>\$ 40,706,398</u>	<u>\$ 39,476,960</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	<u>2003</u>	<u>2002</u>
<u>REVENUES:</u>		
Premium income	\$ 3,410,198	\$ 1,959,736
Investment income (note 4)	916,547	3,364,499
	<hr/>	<hr/>
Total revenues	4,326,745	5,324,235
	<hr/>	<hr/>
<u>EXPENSES:</u>		
Claims expense (note 3)	2,928,761	3,676,101
Reinsurance premium	73,216	-
Miscellaneous	62,085	62,881
	<hr/>	<hr/>
Total expenses	3,064,062	3,738,982
	<hr/>	<hr/>
Net income	1,262,683	1,585,253
	<hr/>	<hr/>
Retained earnings, beginning of year	24,609,450	23,024,197
	<hr/>	<hr/>
Retained earnings, end of year	\$ 25,872,133	\$ 24,609,450
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002**

	2003	2002
Cash flows from operating activities:		
Net income	\$ 1,262,683	\$ 1,585,253
Less adjustment for investment income	(916,547)	(3,364,499)
Adjustments to reconcile net income to net cash used in operations:		
Change in due to affiliates, reinsurance receivable, other receivables	(419,922)	(1,375,547)
Change in unpaid claims liability	406,000	2,056,000
Change in unearned premiums and accrued expenses	(439,245)	440,213
Net cash used in operating activities	(107,031)	(658,580)
Cash flows from investing activities:		
Purchases of investments	(14,091,988)	(10,303,677)
Proceeds from sales or maturities of investments	12,323,518	9,047,078
Investment interest received	1,869,500	1,915,133
Net cash provided by investing activities	101,030	658,534
Net change in cash	(6,001)	(46)
Cash, beginning of year	100,096	100,142
Cash, end of year	\$ 94,095	\$ 100,096

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability, Workers' Compensation Funds and Accident and Health Funds. During 2003 and 2002, LMRFA also reinsures two municipalities.

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

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

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

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

(b) *Basis of Accounting*

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

**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

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

(c) ***Investments***

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

(d) ***Premium Income***

The premium income of LMRFA collected in the current year is based on a percentage of premium of LMRMA workers' compensation, public liability, and accident and health funds (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. For the years ended December 31, 2003 and 2002, LMRFA provided reinsurance directly to municipalities for a total premium of \$98,007 and \$84,827, respectively. The costs associated with new and renewal contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred.

(e) ***Unpaid Claims Liability***

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements. Such reserves have been discounted at 5.4% and 5.8% at December 31, 2003 and 2002, 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).



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Income Taxes*

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

(h) *Use of Estimates*

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

2. RELATED PARTY TRANSACTIONS

LMA, RMI, LMRMA and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. Effective January 1, 2003, the Fund began to serve as reinsurer of the A&H fund. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) or per participant rates as follows:

	Fee Basis	2003	2002
Premium income:			
LMRMA:			
Public Liability	18.0% ESP	\$ 1,903,973	\$ 1,496,542
Workers' Compensation	7.0% ESP	624,871	378,367
A&H	\$20.43 per participant	583,513	-
		\$ 3,112,357	\$ 1,874,909
Due from affiliates:			
LMRMA:			
Public Liability		\$ 630,905	\$ 223,673
Workers' Compensation		246,503	47,995
RMI		-	255,200
A&H		240,000	-
		\$ 1,117,408	\$ 526,868

Amounts due from the LMRFA Accident and Health Fund represent borrowings for cash flow needs. The Board of trustees of the Fund have authorized borrowings up to \$500,000, which are unsecured and non-interest bearing.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 14,379	\$ 12,323
Less: Reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year (net)	<u>14,379</u>	<u>12,323</u>
Net incurred related to:		
Current year	2,408	2,875
Prior years	<u>520</u>	<u>801</u>
Total incurred	<u>2,928</u>	<u>3,676</u>
Net paid related to:		
Current year	-	-
Prior years	<u>2,522</u>	<u>1,620</u>
Total paid	<u>2,522</u>	<u>1,620</u>
Liability for unpaid losses at end of year (gross)	14,785	14,379
Reinsurance recoverables	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year (net)	<u>\$ 14,785</u>	<u>\$ 14,379</u>

The Fund's claims payable have been discounted for December 31, 2003 and 2002 based on the Fund's anticipated payout patterns and a discount rate assumption of 5.4% and 5.8%, respectively, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$4,877,000 and \$5,116,000 at December 31, 2003 and 2002, respectively.

4. DEPOSITS AND INVESTMENTS

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2003 and 2002.



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

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 or pledged collateral.

	2003	2002
Insured	\$ 94,095	\$ 100,096
Uninsured	-	-
	\$ 94,095	\$ 100,096

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 investments include securities which are insured or registered or securities held by LMRFA or its agent in LMRFA's name. The U.S. Government agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. Money market accounts are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent. The amortized cost of the Fund's investments are \$37,666,733 and \$35,972,335 at December 31, 2003 and 2002, respectively. The estimated fair value of investments by type at December 31, 2003 and 2002, are as follows:

	2003	2002	Category
Money market accounts	\$ 1,813,347	\$ 1,114,241	-
U.S. Government Agency obligations	30,836,822	28,790,024	1
U.S. Treasury obligations	6,374,842	8,306,772	1
	\$ 39,025,011	\$ 38,211,037	

Included in investment balances as of December 31, 2003 and 2002 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. 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

4. DEPOSITS AND INVESTMENTS (continued)

The scheduled maturities, at amortized cost and estimated fair value, of securities held were as follows at December 31, 2003:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 4,049,993	\$ 4,084,947
Due after one year through five years	16,210,991	16,890,569
Due after five years through ten years	8,755,507	9,303,131
Due after ten years	8,650,242	8,746,364
	<u>\$ 37,666,733</u>	<u>\$39,025,011</u>

Investment income for the years ended December 31, 2003 and 2002 consists of the following:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 1,715,627	\$ 1,825,559
Realized gains – net	81,345	114,618
Unrealized gains arising during the year	<u>(880,425)</u>	<u>1,424,322</u>
	<u>\$ 916,547</u>	<u>\$ 3,364,499</u>

5. REINSURANCE POLICY COVERAGE

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



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

NOTES TO FINANCIAL STATEMENTS

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

Assumed:

For the years ended December 31, 2003 and 2002, LMRFA provided excess reinsurance to LMRMA Public Liability, and Workers' Compensation Funds and effective January 1, 2003, provided excess reinsurance to LMRMA Accident and Health Fund with the following limits:

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

Two million dollar aggregate before commercial reinsurer is responsible for any payments.

As of December 31, 2003 and 2002, LMRFA also provides reinsurance for two municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium.

Ceded:

LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For the years ended December 31, 2003 and 2002, the LMRFA did not renew this reinsurance. LMRFA obtained commercial reinsurance to cover a portion of the accident and health risks assumed during 2003.

SUPPLEMENTAL INFORMATION



**LOUISIANA MUNICIPAL
RESERVE FUND AGENCY**

SCHEDULE

DECEMBER 31, 2003

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2003 and as of the end of each of the last nine years.

	2003	2002	2001	2000	1999	1998	1997	1996 ⁽¹⁾	1995	1994
	(in thousands)									
ENP and investment income	\$ 4,327	\$ 5,324	4,290	\$ 4,586	\$ 2,591	\$ 4,474	\$ 5,004	\$ 4,142	\$ 4,327	\$ 4,443
Operating costs, unallocated	135	63	294	293	135	407	483	415	427	20
Estimated incurred claims and expense, end of policy year	3,104	3,710	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144
Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	-	140	-	-	195
One year later	-	60	413	69	431	-	140	-	-	487
Two years later	-	-	1,158	300	737	775	252	69	283	490
Three years later	-	-	-	629	910	859	555	247	1,289	542
Four years later	-	-	-	-	1,168	931	571	650	1,350	1,155
Five years later	-	-	-	-	-	995	750	1,277	1,423	1,166
Six years later	-	-	-	-	-	-	755	1,281	1,585	1,172
Seven years later	-	-	-	-	-	-	-	1,281	1,797	1,312
Eight years later	-	-	-	-	-	-	-	-	1,890	1,312
Nine years later	-	-	-	-	-	-	-	-	-	1,478
Re-estimated incurred claims and claims expense:										
End of policy year	3,104	3,710	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144
One year later	-	2,656	2,305	1,624	2,319	2,352	2,016	2,083	2,293	4,230
Two years later	-	-	3,335	1,570	3,690	2,434	1,906	1,367	3,818	2,304
Three years later	-	-	-	1,560	3,842	2,167	1,630	1,574	3,367	2,010
Four years later	-	-	-	-	3,555	2,222	1,434	1,795	3,099	2,219
Five years later	-	-	-	-	-	2,132	1,556	1,796	2,795	2,168
Six years later	-	-	-	-	-	-	1,523	1,785	2,739	2,282
Seven years later	-	-	-	-	-	-	-	1,768	2,678	2,171
Eight years later	-	-	-	-	-	-	-	-	2,486	2,180
Nine years later	-	-	-	-	-	-	-	-	-	2,579
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(1,054)	1,026	(223)	1,572	(170)	(2,378)	(2,119)	(1,307)	(1,565)

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

See accompanying independent auditors' report.





Postlethwaite & Netterville

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

Officers and Trustees
Louisiana Municipal Reserve Fund Agency

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Baton Rouge, Louisiana
May 6, 2004

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LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2003



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund

We have audited the accompanying balance sheets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2003 and 2002, 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 auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 6, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Postlethwaite & Netterville

Baton Rouge, Louisiana
May 6, 2004

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

BALANCE SHEETS
DECEMBER 31, 2003 AND 2002

ASSETS

	<u>2003</u>	<u>2002</u>
Cash (note 3)	\$ 2,403	\$ 20,861
Investments (note 3)	3,508,329	3,451,402
Accounts receivable	64,615	43,517
Accrued interest receivable	40,105	41,062
	<u>\$ 3,615,452</u>	<u>\$ 3,556,842</u>

LIABILITIES AND RETAINED EARNINGS

Liabilities:		
Unpaid claims liability (note 4)	\$ 100,000	\$ 100,000
Accrued expenses	82,767	78,397
	<u>182,767</u>	<u>178,397</u>
Retained earnings	3,432,685	3,378,445
	<u>\$ 3,615,452</u>	<u>\$ 3,556,842</u>

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
<u>REVENUES:</u>		
Premium income	\$ 242,117	\$ 205,912
Investment income	132,396	279,577
	374,513	485,489
<u>EXPENSES:</u>		
Claims expense (note 4)	277,568	353,758
Service agent fees	38,232	23,489
Actuarial and professional fees	-	27,989
Miscellaneous	4,473	5,730
	320,273	410,966
NET INCOME	54,240	74,523
Excess funds distribution (note 2)	-	(3,617,000)
Retained earnings, beginning of year	3,378,445	6,920,922
Retained earnings, end of year	\$ 3,432,685	\$ 3,378,445

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Net income	\$ 54,240	\$ 74,523
Less adjustment for investment income	(132,396)	(279,577)
Adjustments to reconcile net income to net cash used in operations:		
Changes in operating assets and liabilities:		
Accounts receivable	(21,098)	13,831
Accrued expenses and dividend payable	4,369	(127,304)
Net cash used in operating activities	(94,885)	(318,527)
Cash flows from investing activities:		
Purchases of investments	(908,669)	(1,395,428)
Proceeds from sale or maturity of investments	798,149	4,944,404
Interest income received	186,947	303,024
Net cash provided by investing activities	76,427	3,852,000
Cash flows from financing activities:		
Distribution of excess funds	-	(3,617,000)
Net cash used in financing activities	-	(3,617,000)
Net increase in cash	(18,458)	(83,527)
Cash, beginning of year	20,861	104,388
Cash, end of year	\$ 2,403	\$ 20,861

See accompanying notes to financial statements.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Background and Financial Statement Presentation*

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities 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, 2003, there were approximately 6,600 participants and 142 participating municipalities. As of December 31, 2002, there were approximately 6,600 participants and 136 participating municipalities.

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

(b) *Basis of Accounting*

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

(c) *Cash and Cash Flows*

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

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



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

(e) *Unpaid Claims Liability*

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

(f) *Income Taxes*

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

(g) *Premium Income and Accounts Receivable*

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

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

(h) *Use of Estimates*

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

2. **RELATED PARTY TRANSACTIONS**

In 2002, the LMA board approved a return of \$3,617,000 of excess funds which was paid during 2002 to members of the Fund. This rebate was pro-rated on premium payments for the years 1979 - 2000 and paid to those municipalities that were members of the Fund as of December 31, 2001.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CASH AND INVESTMENTS

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

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:

	<u>2003</u>	<u>2002</u>
Insured	\$ 2,403	\$ 20,861
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 2,403</u>	<u>\$ 20,861</u>

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

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

The U.S. Government Agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. The repurchase agreement, certificates of deposits, cash and money market 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 are derivative financial statements. These investments may include U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. These derivative investments are interest rate sensitive and, as a result, could experience market fluctuations.



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

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

The amortized cost of the Fund's investments is \$3,389,295 and \$3,308,312 at December 31, 2003 and 2002, respectively. The estimated fair value for investments by type at December 31 was as follows:

	<u>2003</u>	<u>2002</u>	<u>Category</u>
Money market accounts	\$ 231,760	\$ 127,452	-
U.S. Government Agency obligations	1,244,603	1,275,292	1
U.S. Treasury securities	<u>2,031,966</u>	<u>2,048,658</u>	1
	<u>\$ 3,508,329</u>	<u>\$ 3,451,402</u>	

The scheduled contractual maturities of investments held at December 31, 2003 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Amortized</u> <u>Cost</u>	<u>Fair</u> <u>Estimated</u> <u>Value</u>
Due in one year	\$ 423,508	\$ 484,604
Due after one year through five years	992,428	1,032,705
Due after five years through ten years	1,559,069	1,565,206
Due after ten years	<u>414,290</u>	<u>425,814</u>
	<u>\$ 3,389,295</u>	<u>\$ 3,508,329</u>

Investment income for the years ended December 31, 2003 and 2002 consisted of the following:

	<u>2003</u>	<u>2002</u>
Interest income	\$ 154,086	\$ 209,759
Realized gains – net	2,367	62,587
Unrealized (losses) gains arising during the year	<u>(24,057)</u>	<u>7,231</u>
	<u>\$ 132,396</u>	<u>\$ 279,577</u>



LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate unpaid claims liability for the Fund for the years ended December 31, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ 100	\$ 100
Incurred claims and claim adjustment Expenses:		
Provision for insured events of the current year	<u>278</u>	<u>354</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	178	291
Claims and claim adjustment expenses attributable to insured events of prior years	100	63
Total payments	<u>278</u>	<u>354</u>
Total unpaid claims and claim adjustment expenses liability at end of year	<u>\$ 100</u>	<u>\$ 100</u>





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

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund

We have audited the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) as of and for the year ended December 31, 2003, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

Postlethwaite & Netterville

Baton Rouge, Louisiana

May 6, 2004