
LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Accident and Health Fund
Baton Rouge, Louisiana

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of and for the years ended December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency - Accident and Health Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Plan to Discontinue Operations

As discussed in Note 5 to the financial statements, the Fund's Board of Trustees approved plans for the Fund's operations to be discontinued effective July 1, 2023. All remaining participating Fund members will be transferred into an insured dental plan and all remaining assets will be distributed to participants over the coming years through a formula determined and approved by the Board of Trustees. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency - Accident and Health Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Municipal Risk Management Agency - Accident and Health Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency - Accident and Health Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Accident and Health Fund basic financial statements. The accompanying schedule of compensation, benefits and other payments to Chief Executive Officer – Act 706 included on page 16, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report on pages 17 and 18, dated June 23, 2023, 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 grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Accident and Health Fund (the Fund) presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2022 and 2021. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Effective January 1, 2013, the Fund converted its health insurance program from a self-funded program to a fully insured sponsored plan through Blue Cross Blue Shield of Louisiana. The financial statements for the years ended December 31, 2022 and 2021 include only operations for dental coverage which the Fund insures.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2022 by \$1,882,052 compared to the Fund's assets exceeding its liabilities by \$1,895,086 as of December 31, 2021.
- The Fund's assets totaled \$1,896,482 and \$1,905,176 at December 31, 2022 and 2021, respectively, which consisted primarily of cash and cash equivalents.
- The Fund reported gross premiums earned of \$199,996 and \$200,655 during the years ended December 31, 2022 and 2021, respectively.
- The Fund reported a decrease in net position of \$13,034 and \$47,077 during the years ended December 31, 2022 and 2021, respectively.
- The Fund outsourced the processing of dental claims during the years ended December 31, 2022 and 2021 and paid approximately \$19,913 and \$20,660, respectively, in administrative fees to the third party processor.
- Effective July 1, 2023, the Fund will be discontinued. All participating members will be transferred to an insured dental plan and remaining funds will distributed to participating members by a formula determined and approved by the Board of Trustees.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by the private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). They also provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine profitability, credit worthiness, and whether the Fund has successfully recovered all its costs through its premium and investment income. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total assets	\$ 1,896,482	\$ 1,905,176
Deferred outflows	-	-
Total liabilities	14,430	10,090
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 1,882,052</u>	<u>\$ 1,895,086</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets consist primarily of cash and cash equivalents and have remained consistent from 2021 to 2022. Total liabilities increased approximately 43% over prior year as a result of the increase in the current amount of unpaid claims liability.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - ACCIDENT AND HEALTH FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 199,996	\$ 200,655
Operating expenses	<u>240,136</u>	<u>248,639</u>
Operating loss	(40,140)	(47,984)
Non-operating income	<u>27,106</u>	<u>907</u>
Change in net position	<u>\$ (13,034)</u>	<u>\$ (47,077)</u>

The Fund experienced an excess of expenses over revenues in the amount of \$13,034 for the current year, resulting primarily from an a lower number of participants. During the year ended December 31, 2021, the Fund experienced an excess of expenses over revenues of \$47,077 due to an increase in claims expense. During the year ended December 31, 2022, the Fund reported premium income of \$199,996 and investment income of \$27,106. During the year ended December 31, 2022, the Fund reported total expenses of \$240,136 which consisted primarily of claims and administrative expenses. Claims expense incurred during the years ended December 31, 2022 and 2021 represented 79% and 85% of premium income, respectively.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Accident and Health Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents (note 4)	\$ 1,873,028	\$ 1,892,986
Accounts receivable, net	<u>23,454</u>	<u>12,190</u>
Total assets	1,896,482	1,905,176
Deferred outflows	<u>-</u>	<u>-</u>
Total assets and deferred outflows	<u>\$ 1,896,482</u>	<u>\$ 1,905,176</u>
Liabilities:		
Accounts payable	\$ 2,530	\$ 2,690
Unpaid claims liability (note 3)	<u>11,900</u>	<u>7,400</u>
Total liabilities	14,430	10,090
Deferred inflows	-	-
Net position	<u>1,882,052</u>	<u>1,895,086</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,896,482</u>	<u>\$ 1,905,176</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 199,996	\$ 200,655
Total operating revenues	199,996	200,655
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	158,556	170,907
Service agent fees (note 2)	18,381	19,071
Administrative fees (note 2)	32,966	34,018
Professional fees	30,233	24,643
Total operating expenses	240,136	248,639
<u>OPERATING LOSS</u>	(40,140)	(47,984)
<u>NON-OPERATING INCOME</u>		
Investment income, net (note 4)	27,106	907
<u>CHANGE IN NET POSITION</u>	(13,034)	(47,077)
NET POSITION - BEGINNING OF YEAR	1,895,086	1,942,163
NET POSITION - END OF YEAR	\$ 1,882,052	\$ 1,895,086

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Operating loss	\$ (40,140)	\$ (47,984)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in accounts receivables	(11,264)	6,442
Change in unpaid claims liability	4,500	(2,800)
Change in accounts payable	<u>(160)</u>	<u>2,690</u>
Net cash used in operating activities	<u>(47,064)</u>	<u>(41,652)</u>
Cash flows from investing activities:		
Investment interest received	<u>27,106</u>	<u>907</u>
Net cash provided by investing activities	<u>27,106</u>	<u>907</u>
Net change in cash	(19,958)	(40,745)
Cash, beginning of year	<u>1,892,986</u>	<u>1,933,731</u>
Cash, end of year	<u><u>\$ 1,873,028</u></u>	<u><u>\$ 1,892,986</u></u>

The accompanying notes are an integral part of these 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 accident and health, workers' compensation, 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. The Fund offers dental coverage to its members. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with 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.

The Fund pays LMA administrative fees as well as service agent fees to RMI for dental coverage (see note 2). During the year ended December 31, 2022 and 2021, the Fund outsourced the processing of dental claims to an unrelated third party. This service cost \$3.25 per contract, for a total of approximately \$19,913 and \$20,660 for the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, there were 18 and 33 participating municipalities in the Fund with a total number of participants of 494 and 843, 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 net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 14.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements. Since the business of the Fund is essentially that of an insurance company, having a business cycle greater than one year, the statements of net position are not presented in a classified format.

(c) *Net Position*

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) *Premium Income and Accounts Receivable*

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

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(e) *Operating / Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses, which are ancillary to the Fund's statutory purpose, are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claim 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 claims amounts in the financial statements.

(g) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash includes amounts in demand deposit accounts with banks, and money markets and repurchase agreements, which are usually purchased with maturities of 90 days or less or are reinvested continuously.

(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

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. For example, significant estimates and assumptions are used in estimating its unpaid claims liabilities, and accruals. If future experience differs materially for these estimates and assumptions, the financial statements could be affected.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

RMI and LMA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fee incurred by the Fund for these services is as follows:

	2022	2021
Expenses and current fee structure:		
Service agent fees – RMI (per dental participant - \$3.00 in 2022 and 2021)	\$ <u>18,381</u>	\$ <u>19,071</u>
Administrative fees – LMA (per dental participant - \$2.00 in 2022 and 2021)	\$ <u>12,254</u>	\$ <u>12,714</u>

As of December 31, 2022, included in accounts payable is \$1,012 payable to LMA and \$1,518 payable to RMI. As of December 31, 2021, included in accounts payable is \$1,076 payable to LMA and \$1,614 payable to RMI.

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:

	2022	2021
Unpaid claims and claims adjustment expenses liability, beginning of year	\$ 7,400	\$ 10,200
Incurred claims and claims adjustment expense-provision for insured events	158,556	170,907
Less payments – claims and claims adjustment expenses	<u>(154,056)</u>	<u>(173,707)</u>
Unpaid claims and claims adjustment expenses liability, end of year	\$ <u>11,900</u>	\$ <u>7,400</u>

4. CASH AND CASH EQUIVALENTS

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, 2022 and 2021. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS (continued)

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions.

Net investment income for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Interest income	\$ 27,106	\$ 907

As of December 31, 2022 and 2021, the Fund had the following deposits:

	2022 Estimated Fair Value	2021 Estimated Fair Value
Cash and cash equivalents invested in LAMP	\$ 1,526,947	1,501,582
Cash and cash equivalents	346,081	391,404
TOTAL	\$ 1,873,028	\$ 1,892,986

For reporting purposes, cash and cash equivalents include cash on hand, demand deposits, unrestricted money market accounts, and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

There is a balance of \$1,526,947 included in cash and cash equivalents on the statements of net position that is invested in the Louisiana Asset Management Pool (LAMP) for the year ended December 31, 2022. LAMP is considered to be an external investment pool administered by LAMP, Inc., a non-profit corporation organized under the laws of the State of Louisiana. Only local government entities having contracted to participate in LAMP have an investment interest in its pool of assets. The primary objective of LAMP is to provide a safe environment for the placement of public funds in short term, high quality investments. The LAMP portfolio includes only securities and other obligations in which local governments in Louisiana are authorized to invest in accordance with LA-R.S. 33.2955.

The following facts are relevant for LAMP:

Credit risk: LAMP is rated AAAM by Standard & Poor's.

Custodial credit risk: LAMP participants' investments in the pool are evidenced by shares of the pool. Investments in pools should be disclosed, but not categorized because they are not evidenced by securities that exist in physical or book-entry form. The public entity's investment is with the pool, not the securities that make up the pool; therefore, no disclosure is required.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS (continued)

Concentration of credit risk: Pooled investments are excluded from the 5 percent disclosure requirement.

Interest rate risk: LAMP is designed to be highly liquid to give its participants immediate access to their account balances. LAMP prepares its own interest rate disclosure using the weighted average maturity (WAM) method. The WAM of LAMP assets is restricted to not more than 70 days and consists of no securities with a maturity in excess of 397 days or 762 days for U.S. Government floating/variable rate investments. The WAM for LAMP's total investments is 22 days as of December 31, 2022.

Foreign currency risk: Not applicable.

LAMP values its investments at fair value based on quoted market values. The fair value is determined on a weekly basis by LAMP and the value of the position in the external investment pool is the same as the value of the pool shares which approximates net asset value (NAV).

LAMP, Inc. is subject to the regulatory oversight of the state treasurer and board of directors. LAMP is not registered with the SEC as an investment company.

An annual audit of LAMP is conducted by an independent certified public accountant. The Legislative Auditor of the State of Louisiana has full access to the records of LAMP.

LAMP issues financial reports which can be obtained by writing: LAMP, Inc., 228 St. Charles Avenue, Suite 1123, New Orleans, LA 70130.

5. SUBSEQUENT EVENTS

The Board of Trustees approved plans for the Louisiana Municipal Risk Management Agency – Accident and Health Fund to discontinue operations and commence a plan of dissolution effective July 1, 2023. Effective upon this date, remaining participating Fund members will be moved into an insured dental plan. All remaining funds are to be distributed over the coming years through a formula determined and approved by the Board of Trustees.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 23, 2023, and determined that no additional disclosures were necessary. No other subsequent events occurring after this date have been evaluated for inclusion in financial statements.

SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2022

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by Agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

**No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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
Baton Rouge, Louisiana

We have audited, in accordance with the 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, the financial statements of Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of December 31, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.



Report on Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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
Baton Rouge, Louisiana

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency – Public Liability Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Public Liability Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Municipal Risk Management Agency – Public Liability Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Public Liability Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedule of ten-year claims development on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Public Liability Fund basic financial statements. The accompanying schedule of compensation, benefits and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2023, 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Public Liability Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2022 and 2021. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2022 by \$16,140,580 compared to \$18,592,219 as of December 31, 2021, which is a 13% decrease.
- At December 31, 2022, the Fund's assets totaled \$31,308,417, which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government, corporate, and municipal debt obligations and accounts and notes receivable. At December 31, 2021, the Fund's assets totaled \$33,325,578, which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government, corporate, and municipal debt obligations and accounts and notes receivable.
- The Fund reported earned premiums of \$9,723,132 and \$9,748,473 during the years ended December 31, 2022 and 2021, respectively.
- Net position decreased by \$2,451,639 during the year ended December 31, 2022 and net position increased by \$2,714,909 during the year ended December 31, 2021. During 2022, the Fund experienced a decline in the market value of investments while in 2021 the Fund experienced favorable development in prior year's claims which are the primary drivers in the change in net position during these time periods.
- At the end of the current fiscal year, the Fund's net position totaled \$16,140,580 or 106% of the Fund's liabilities.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements also provide the basis for computing rate of return, evaluating the capital structure of the Fund, and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premium and investment income, profitability and credit worthiness. The final required financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

The preparation of these financial statements requires the utilization of significant estimates. Changes in estimates, as well as the differences in actual results and estimated amounts, will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the Net Position of the Fund and changes in them. The net position (difference between assets and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31:

	<u>2022</u>	<u>2021</u>
Total assets	\$ 31,308,417	\$ 33,325,578
Deferred outflows	-	-
Total liabilities	15,167,837	14,733,359
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 16,140,580</u>	<u>\$ 18,592,219</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 6% primarily related to decreases in investments due to market value decline during 2022. Total liabilities increased approximately 3% over the prior year as a result of the increase in the unpaid claims liability.

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 9,723,132	\$ 9,748,473
Operating expenses	<u>10,394,889</u>	<u>6,597,627</u>
Operating (loss) income	(671,757)	3,150,846
Non-operating loss	<u>(1,779,882)</u>	<u>(435,937)</u>
Change in net position	<u>\$ (2,451,639)</u>	<u>\$ 2,714,909</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

During the year ended December 31, 2022, the Fund reported premium income of \$9,723,132 and investment losses of \$1,801,497. Investment losses during 2022 and 2021 were due to unfavorable changes in the values of the Fund's investment portfolio, which is consistent with the overall market for similar investments. The Fund reported total operating expenses of \$10,394,889 which consisted primarily of claims, reinsurance premiums, and administrative and service agent fees.

During 2021, the Fund reported premium income of \$9,748,473, and total expenses of \$6,597,627, which were similar in make-up to 2022. Expenses increased from 2021 primarily as a result of higher claims expenses resulting from unfavorable development of loss reserves for prior policy years and increased related party fees. The Fund's net position decreased \$2,451,639 during 2022 and increased \$2,714,909 during 2021. See Statements of Revenues, Expenses and Changes in Net Position on page 8 of this report.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Public Liability Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash and cash equivalents	\$ 1,354,959	\$ 1,307,963
Investments (note 4)	26,102,403	25,937,718
Accounts receivable, net	540,850	339,785
Reinsurance receivable (note 3)	922,971	1,520,613
Deductibles receivable	389,342	186,986
Due from affiliates - net (note 2)	323,012	911,565
Accrued interest receivable	142,418	120,948
Note receivable from affiliate (note 2)	1,532,462	3,000,000
 Total assets	 \$ 31,308,417	 \$ 33,325,578
 Deferred outflows	 -	 -

LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability, net (note 3)	\$ 13,031,000	\$ 12,653,000
Unearned premiums	2,125,723	2,073,103
Accounts payable	11,114	7,256
Total liabilities	15,167,837	14,733,359
 Deferred inflows	 -	 -
 Net position	 16,140,580	 18,592,219
Total liabilities, deferred inflows, and net position	\$ 31,308,417	\$ 33,325,578

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 9,723,132	\$ 9,748,473
Total operating revenues	<u>9,723,132</u>	<u>9,748,473</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	6,319,123	3,240,238
Reinsurance premiums (note 2)	1,609,178	1,613,697
Administrative fees (note 2)	1,215,767	804,249
Service agent fees (note 2)	1,166,776	877,363
Miscellaneous	<u>84,045</u>	<u>62,080</u>
Total operating expenses	<u>10,394,889</u>	<u>6,597,627</u>
<u>OPERATING (LOSS) INCOME</u>	(671,757)	3,150,846
<u>NON-OPERATING LOSS</u>		
Investment loss, net (note 4)	(1,801,497)	(435,937)
Interest income from affiliate (note 2)	<u>21,615</u>	<u>-</u>
<u>CHANGE IN NET POSITION</u>	<u>(2,451,639)</u>	<u>2,714,909</u>
<u>NET POSITION - BEGINNING OF YEAR</u>	<u>18,592,219</u>	<u>15,877,310</u>
<u>NET POSITION - END OF YEAR</u>	<u>\$ 16,140,580</u>	<u>\$ 18,592,219</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Operating (loss) income	\$ (671,757)	\$ 3,150,846
Adjustments to reconcile operating income to net cash provided by operations:		
Change in receivables and due from affiliates	761,304	(251,543)
Change in unpaid claims liability	378,000	(1,433,000)
Change in accounts payable and unearned premiums	<u>56,478</u>	<u>(14,747)</u>
Net cash provided by operating activities	<u>524,025</u>	<u>1,451,556</u>
Cash flows from investing activities:		
Purchases of investments	(7,940,792)	(24,719,040)
Proceeds from sales and maturities of investments	5,364,653	25,156,509
Investment in note receivable from affiliate	-	(3,000,000)
Payments received on note receivable from affiliate	1,467,538	-
Interest income on note receivable from affiliate	21,615	-
Investment income received	<u>609,957</u>	<u>558,825</u>
Net cash used in investing activities	<u>(477,029)</u>	<u>(2,003,706)</u>
Net change in cash	46,996	(552,150)
Cash, beginning of year	<u>1,307,963</u>	<u>1,860,113</u>
Cash, end of year	<u><u>\$ 1,354,959</u></u>	<u><u>\$ 1,307,963</u></u>

The accompanying notes are an integral part of these 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 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, 2022 and 2021, there were 196 and 193 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 net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 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. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance enterprise having a business cycle greater than one year, the statements of net position are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Net Position*

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

(d) *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 gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include money market accounts, repurchase agreements, corporate and municipal bonds, U.S. Government Agency obligations, and U.S. Treasury securities and are held for long term purposes.

(e) *Premium Income and Receivables*

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. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund considers accounts receivable, reinsurance receivable, note receivable, and deductibles receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts or deductibles become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(f) *Operating/Non-Operating Revenue and Expense*

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *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 public 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. The Fund includes unallocated loss adjustment expenses in its reserve valuation process.

Adjustments to claims liabilities are charged or credited to claims 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.

(h) *Statements of Cash Flows*

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks.

(i) *Excess Reinsurance*

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events (see notes 2 and 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 insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers.

(j) *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)

(k) 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 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 premiums earned and earned normal premiums (ENP) for the years ended December 31, 2022 and 2021, respectively. Beginning in 2022, the LMA administrative service agreement fee was amended to also include payment of the Fund's annual interest earnings. The respective percentages of the earned normal premiums and earned standard premiums are as follows:

	2022	2021
Expenses (and current fee structure):		
Administrative fee – LMA		
8.25% of earned premium	\$ 802,158	\$ 804,249
Interest earnings	413,609	-
	\$ 1,215,767	\$ 804,249
Service agent - RMI		
12.00% of earned premium in 2022		
9.00% of earned premium in 2021	\$ 1,166,776	\$ 877,363
Reinsurance premium – LMRFA		
16.55% of earned premium	\$ 1,609,178	\$ 1,613,697
Reinsurance recoveries from LMRFA	\$ 735,430	\$ 2,402,603
Due (to) from affiliates:		
LMA	\$ 19,595	\$ 106,011
RMI	66,409	63,368
LMRFA	237,008	742,186
	\$ 323,012	\$ 911,565

Also see Note 3 for additional reinsurance receivable balance with LMRFA and estimated future recoverable.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2021, the Fund and LMRMA Workers' Compensation Fund entered into an agreement with LMA to loan funds to LMA, a total of \$8 million, for the purpose of the purchase of an office building. The terms of the agreement dated December 20, 2021, state that LMA promises to pay the Fund \$3 million and the LMRMA Workers' Compensation Fund \$5 million in principal with interest thereon at the initial rate per annum equal to the average yield on all of LMRMA investments as of December 31, 2021. Beginning January 1, 2022, LMA pledges the future administrative fees it receives from the Fund and the LMRMA Workers' Compensation Fund as payment for the principal and interest on this note not to exceed \$1.5 million per year. The note is secured by a mortgage on the property purchased and was reduced by net proceeds from the sale of the prior LMA office building during 2022. The terms also state that the interest rate shall be adjusted on January 1 each year beginning on January 1, 2023, based on the average yield on all of LMRMA investments for the then immediately preceding 12 months. Interest and principal are payable in annual installments beginning on the 20th of December 2022 and each year thereafter until paid, with the payments varying as interest rate varies. The note receivable balance was \$1,532,462 and \$3,000,000 as of December 31, 2022 and 2021, respectively. The interest income recognized during 2022 and 2021 was \$21,615 and \$0, respectively, computed at an interest rate of 0.81% during 2022.

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, 2022 and 2021:

	2022	2021
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 20,667	\$ 24,024
Less: reinsurance recoverables	8,014	9,938
Liability for unpaid losses at beginning of year, net	12,653	14,086
Net incurred related to:		
Current year	5,534	4,802
Prior years	785	(1,562)
Total incurred	6,319	3,240
Net paid related to:		
Current year	904	615
Prior years	5,037	4,058
Total paid	5,941	4,673
Liability for unpaid losses at end of year, gross	23,892	20,667
Less: reinsurance recoverables (See Note 5)	10,861	8,014
Liability for unpaid losses at end of year, net	\$ 13,031	\$ 12,653

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

In addition to the estimated unpaid claims recoverable from the Fund's reinsurer (LMRFA), there are \$922,972 and \$1,520,613 of paid claims which are receivable from the reinsurer at December 31, 2022 and 2021, respectively. See Note 5.

During 2022, the Fund experienced unfavorable development of prior year estimated loss reserves and during 2021, the Fund experienced favorable development of prior year estimated loss reserves. The 2022 unfavorable development is due to claims severity compared to prior estimates. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2022 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2022, will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted as of December 31, 2022 and 2021, based on the Fund's anticipated payout patterns and discount rate assumption of 2.5% and 2.0%, respectively, which is intended to approximate the interest earnings over the reserve payout period. The effect of the reserve discounts was \$721,000 and \$578,000 at December 31, 2022 and 2021, 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 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 years ended December 31, 2022 and 2021.

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. The Fund may also make investments in other bond or debentures provided certain conditions are met regarding credit quality. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire transfer cash as needed from investments to support disbursements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Fund's exposure to each type.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2022 and 2021:

<u>Investment Type</u>	<u>2022</u>		<u>2021</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Government mortgage-backed securities	\$ 4,127,055	\$ 4,350,381	\$ 3,880,781	\$ 3,794,346
U.S. Agency debt obligations	9,331,069	10,186,239	10,452,916	10,289,555
U.S. Treasury bonds	3,234,528	3,501,146	2,007,319	2,019,721
Money market funds	1,177,942	1,177,942	158,468	158,468
Municipal bonds	4,733,807	5,119,215	5,598,189	5,658,145
Corporate bonds	3,498,002	3,832,332	3,840,045	3,894,321
TOTAL	<u>\$ 26,102,403</u>	<u>\$ 28,167,255</u>	<u>\$ 25,937,718</u>	<u>\$ 25,814,556</u>

The Fund's investments reflected a net unrealized loss at December 31, 2022 of \$2,064,852 which is attributed to the increases in the market interest rate environment which is further addressed below in Interest Rate Risk.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured or are not registered in the name of the Fund and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market accounts are not required to be rated.

All of the Fund's investments with the exception of money market investments and corporate and municipal bonds, are backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Credit ratings as of December 31, 2022 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 3,717,152	\$ 1,016,655
Corporate bonds	<u>1,440,082</u>	<u>2,057,920</u>
	<u>\$ 5,157,234</u>	<u>\$ 3,074,575</u>

- (1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.
- (2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2022:

<u>INVESTMENT TYPE</u>	INVESTMENT MATURITIES (in years)				
	Estimated Fair Value	Less than 1	1-5	6-10	Greater than 10
U.S. Government agency debt obligations	\$ 9,331,069	\$ -	\$ 6,363,032	\$ 2,968,037	\$ -
U.S. Treasury bonds and notes	3,234,528	-	2,417,400	817,128	-
Municipal bonds	4,733,807	856,869	3,876,938	-	-
Corporate bonds	3,498,002	-	3,498,002	-	-
Money market funds	<u>1,177,942</u>	<u>1,177,942</u>	<u>-</u>	<u>-</u>	<u>-</u>
	21,975,348	<u>\$ 2,034,811</u>	<u>\$ 16,155,372</u>	<u>\$ 3,785,165</u>	<u>\$ -</u>
U.S. Government mortgage-backed securities	<u>4,127,055</u>				
TOTAL	<u>\$ 26,102,403</u>				

Net investment (loss) income for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Interest income	\$ 413,609	\$ 404,599
Realized (losses) gains – net	(27,093)	899
Unrealized losses arising during the year - net	<u>(2,188,013)</u>	<u>(841,435)</u>
	<u>\$(1,801,497)</u>	<u>\$(435,937)</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The fair value of investment securities was determined as follows at December 31, 2022 and 2021:

December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 3,234,528	\$ -	\$ 3,234,528
U.S. Government mortgage-backed securities	-	4,127,055	4,127,055
U.S. Agency debt obligations	9,331,069	-	9,331,069
Money market funds	1,177,942	-	1,177,942
Municipal bonds	-	4,733,807	4,733,807
Corporate bonds	-	3,498,002	3,498,002
	<u>\$ 13,743,539</u>	<u>\$ 12,358,864</u>	<u>\$ 26,102,403</u>

December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 2,007,319	\$ -	\$ 2,007,319
U.S. Government mortgage-backed securities	-	3,880,781	3,880,781
U.S. Agency debt obligations	10,452,916	-	10,452,916
Money market funds	158,468	-	158,468
Municipals bonds	-	5,598,189	5,598,189
Corporate bonds	-	3,840,045	3,840,045
	<u>\$ 12,618,703</u>	<u>\$ 13,319,015</u>	<u>\$ 25,937,718</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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. LMRFA provides reinsurance to LMRMA Public Liability Fund with the following limits:

- Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium
- Item II: Each and every loss in excess of \$100,000 in accident years prior to 2012 and \$150,000 for 2013 and future years.

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 covers 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 Statements of Net Position for LMRFA at December 31:

	<u>2022</u>	<u>2021</u>
Assets	\$ 46,061,638	\$ 51,537,975
Liabilities	<u>40,323,221</u>	<u>37,964,055</u>
Net Position	<u>\$ 5,738,417</u>	<u>\$ 13,573,920</u>

At December 31, 2022 and 2021, the Fund included approximately \$10.9 and \$8.0 million, respectively, as recoverable from LMRFA (included in the liabilities above) which reduced liabilities for anticipated losses (See Note 3). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable.

6. CONTINGENCIES

The Fund is involved in various insurance-related claims and legal actions arising from the normal conduct of business. Management of the Fund establishes estimated liabilities for reported and unreported contingencies. The Fund believes the outcome of these proceedings is mitigated and will not have a material effect on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND ESTIMATED CLAIM ADJUSTMENT EXPENSE

DECEMBER 31, 2022
(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers on specific losses) incurred by the Fund as of the end of 2022 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in thousands)									
ENP and investment income	\$ 7,943	\$ 9,313	11,669	\$ 11,686	\$ 11,384	\$ 11,918	\$ 11,963	\$ 12,343	\$ 10,727	\$ 11,721
Operating costs unallocated	4,076	3,357	3,604	3,431	3,400	3,519	3,468	3,563	6,432	5,499
Estimated incurred claims and claims expense, end of policy year	5,790	5,012	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374
Paid (cumulative) as of:										
End of policy year	904	615	851	642	687	643	719	686	765	838
One year later	-	1,747	1,665	2,088	1,954	1,688	2,293	2,416	2,346	2,669
Two years later	-	-	2,607	2,917	3,178	3,463	4,027	4,383	4,631	4,621
Three years later	-	-	-	3,934	3,927	3,960	5,290	5,899	5,946	6,109
Four years later	-	-	-	-	4,608	4,575	5,781	6,857	6,678	6,398
Five years later	-	-	-	-	-	5,077	6,195	7,139	6,957	6,622
Six years later	-	-	-	-	-	-	6,249	7,328	7,146	6,704
Seven years later	-	-	-	-	-	-	-	7,347	7,180	6,713
Eight years later	-	-	-	-	-	-	-	-	7,215	6,809
Nine years later	-	-	-	-	-	-	-	-	-	6,813
Estimated incurred claims and claims expense:										
End of policy year	5,790	5,012	6,269	5,988	5,617	5,266	7,127	6,744	7,613	7,374
One year later	-	5,086	4,729	5,691	6,108	5,231	6,914	7,209	7,267	7,619
Two years later	-	-	4,549	5,003	5,430	5,820	6,840	7,444	7,873	7,398
Three years later	-	-	-	5,103	5,223	5,346	7,148	7,780	7,485	7,680
Four years later	-	-	-	-	5,338	5,622	6,794	7,852	7,537	7,269
Five years later	-	-	-	-	-	5,772	6,827	7,638	7,481	7,158
Six years later	-	-	-	-	-	-	6,661	7,594	7,376	7,023
Seven years later	-	-	-	-	-	-	-	7,515	7,359	6,921
Eight years later	-	-	-	-	-	-	-	-	7,365	6,959
Nine years later	-	-	-	-	-	-	-	-	-	6,949
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	74	(1,720)	(885)	(279)	506	(466)	771	(248)	(425)

See accompanying independent auditors' report

OTHER SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND
SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2022

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

**No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2016, and applicable guidance published by the Louisiana Legislative Auditor.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, in accordance with the 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, the financial statements of the business-type activities of Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statements of net position as of December 31, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated June 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022



LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

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
Baton Rouge, Louisiana

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 and the schedule of ten-year claims development information on page 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisiana Municipal Risk Management Agency – Workers' Compensation Fund basic financial statements. The schedule of compensation, benefits, and other payments to Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying schedule of compensation, benefits, and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits, and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2023, 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2022 and 2021. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2022 by \$21,547,872 compared to \$24,600,057 as of December 31, 2021, which is a 12.4% decrease over the previous year.
- At December 31, 2022, the Fund's assets totaled \$38,817,074 which consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations, corporate and municipal bonds, amounts and notes due from affiliates, and receivables. At December 31, 2021 the Fund's assets totaled \$41,723,194 and consisted primarily of cash and cash equivalents, investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations, amounts and notes due from affiliates, and receivables.
- The Fund reported earned premiums of \$7,168,683 and \$6,620,900 during the years ended December 31, 2022 and 2021, respectively, and a decrease in net position of \$3,052,185 and \$1,624,866 during the years ended December 31, 2022 and 2021, respectively. The Fund experienced a decline in the market value of investments in both periods however these declines were more significant during 2022 due to overall market conditions.
- At the end of the current fiscal year, the Fund's net position totaled \$21,547,872 or 125% of the Fund's liabilities. The Fund's premiums earned during 2022 were approximately 33% of its net position at December 31, 2022.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position include all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all of its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these basic financial statements requires the utilization of significant estimates. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in it. Net position (difference between assets, deferred outflows, deferred inflows, and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, healthcare costs, the judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31:

	<u>2022</u>	<u>2021</u>
Total assets	\$ 38,817,074	\$ 41,723,194
Deferred outflows	-	-
Total liabilities	17,269,202	17,123,137
Deferred inflows	<u>-</u>	<u>-</u>
Net position	<u>\$ 21,547,872</u>	<u>\$ 24,600,057</u>

All of the Fund's assets can be used for any lawful purpose consistent with the policies and guidelines established by the Board of the Fund. Total assets decreased approximately 7% due to a decrease in investments due to market value declines during 2022. Total liabilities increased approximately 0.85% mainly due to the increases in the unpaid claims liability. Net position decreased approximately 12% from the prior year.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - WORKERS' COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31:**

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 7,168,683	\$ 6,620,900
Operating expenses	<u>7,978,758</u>	<u>7,654,099</u>
Operating loss	(810,075)	(1,033,199)
Non-operating loss	<u>(2,242,110)</u>	<u>(591,667)</u>
Change in net position	<u>\$ (3,052,185)</u>	<u>\$ (1,624,866)</u>

Premium revenues increased \$547,783 or 8.3% primarily due to increases in membership and changes in premium rates and covered payroll. During the year ended December 31, 2022, the Fund reported premiums earned income of \$7,168,683 and non-operating investment loss of \$2,278,154. Investment losses result from unrealized losses in the portfolio and are consistent with unrealized losses seen in the overall market for similar investments. During 2022, the Fund reported total expenses of \$7,978,758, which consisted primarily of claims, administrative and service agent fees, and excess insurance premiums. Total expenses increased \$324,659 or 4% compared to the prior year primarily as a result of related party fees.

The Fund's net position decreased during 2022 by \$3,052,185 compared to a decrease of \$1,624,866 in the prior year. This is primarily a result of fair value driven investment loss as discussed above. See Statements of Revenues, Expenses and Changes in Net Position on page 8 of this report.

Financial Outlook

The Fund anticipates consistency in membership during the next fiscal year. Management emphasizes that the Fund's expenses are greatly impacted by claims losses and claims related expenses which are influenced by factors beyond management's control, including the rate of medical inflation, judicial rulings, and legislative changes.

Requests for Information

This financial report is designed to provide our members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Risk Management Agency – Workers' Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

ASSETS

	2022	2021
Cash and cash equivalents	\$ 3,381,730	\$ 2,784,232
Investments (note 4)	30,708,907	32,015,449
Accounts receivable, net	1,512,386	822,346
Reinsurance receivable (note 3)	401,427	527,315
Due from affiliates (note 2)	-	427,356
Accrued interest receivable	157,450	146,496
Note receivable from affiliate (note 2)	2,655,174	5,000,000
	\$ 38,817,074	\$ 41,723,194

Deferred outflows	-	-
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LIABILITIES AND NET POSITION

Liabilities:		
Unpaid claims liability (note 3)	\$ 12,264,000	\$ 11,586,000
Unearned premiums	537,647	945,053
Due to affiliates (note 2)	47,114	-
Accounts payable and accrued expenses	4,420,441	4,592,084
	17,269,202	17,123,137
Total liabilities		
Deferred inflows	-	-
Net position	21,547,872	24,600,057
Total liabilities, deferred inflows, and net position	\$ 38,817,074	\$ 41,723,194

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 7,168,683	\$ 6,620,900
Total operating revenues	7,168,683	6,620,900
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	3,144,773	3,457,606
Administrative fees (note 2)	1,448,481	827,612
Service agent fees (note 2)	788,555	662,090
Reinsurance premiums (note 2)	1,953,466	1,804,195
Second Injury Fund assessment	479,758	681,518
Office of Workers' Compensation assessment	87,660	152,727
Other	76,065	68,351
Total operating expenses	7,978,758	7,654,099
<u>OPERATING LOSS</u>	(810,075)	(1,033,199)
<u>NON-OPERATING (LOSS) INCOME</u>		
Investment (loss) income, net (note 4)	(2,278,154)	(591,667)
Interest income from affiliate (note 2)	36,044	-
	(3,052,185)	(1,624,866)
<u>CHANGE IN NET POSITION</u>		
<u>NET POSITION - BEGINNING OF YEAR</u>	24,600,057	26,224,923
<u>NET POSITION - END OF YEAR</u>	\$ 21,547,872	\$ 24,600,057

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Operating loss	\$ (810,075)	\$ (1,033,199)
Adjustments to reconcile operating loss to net cash (used in) provided by operations:		
Change in receivables and reinsurance receivable	(564,152)	306,832
Change in unpaid claims liability	678,000	(85,000)
Change in accounts payable, accrued expenses, unearned premiums and due from affiliates	(209,761)	942,340
Net cash (used in) provided by operating activities	(905,988)	130,973
Cash flows from investing activities:		
Investment income received	742,903	839,796
Interest income received from affiliate	36,044	-
Purchases of investments	(9,968,570)	(32,278,524)
Proceeds from sales and maturities of investments	8,254,055	38,390,993
Investment in note receivable from affiliate	-	(5,000,000)
Payments received on note receivable from affiliate	2,344,826	-
Net cash provided by investing activities	1,409,258	1,952,265
Net change in cash	503,270	2,083,238
Cash, beginning of year	2,784,232	700,994
Cash, end of year	\$ 3,287,502	\$ 2,784,232

The accompanying notes are an integral part of these 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 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-Workers' Compensation 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 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, 2022 and 2021, there were 153 and 151 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 LMRMA.

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

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of LMRFA is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation 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 net positions are available only to each individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 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. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. The Fund applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Since the business of the Fund is essentially that of an insurance enterprise having a business cycle greater than one year, the statements of net position are not presented in a classified format.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Net Position

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the differences between total assets and total liabilities presented in the Statement of Net Position.

(d) 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 gains and losses and changes in 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, corporate and municipal bonds, and U.S. Treasury securities.

(e) 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. Acquisition costs associated with new and renewal contracts are immaterial to the financial statements and are expensed when incurred.

The Fund determines past-due accounts based on contractual terms and does not charge interest on the accounts. The Fund charges off receivables if management considers the collection of the outstanding balance to be doubtful. At each of December 31, 2022 and 2021, the allowance for doubtful accounts totaled \$49,402 and \$100,000, respectively.

(f) Operating / Non-Operating Revenue and Expenses

Operating revenues consist of member premiums as these revenues are generated from the Fund's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Investment income and other revenues and expenses which are ancillary to the Fund's statutory purpose are classified as non-operating.

(g) 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.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Unpaid Claims Liability* (continued)

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. The Fund also included unallocated loss adjustment expenses in its reserve valuation process.

Adjustments to claims liabilities are charged or credited to claims 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.

(h) *Statements of Cash Flows*

For the purposes of the statements of cash flows, cash includes cash held in demand deposit accounts with banks.

(i) *Excess Reinsurance and Other Reimbursements*

The Fund uses excess reinsurance agreements to reduce its exposure to large losses on insured events. (See notes 2 and 5). 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 insured risks. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Additionally, the Fund is reimbursed by the Second Injury Fund of the State of Louisiana for certain claims. Such reimbursable claims arise when a covered participant has returned to the workforce after experiencing a covered disability and is disabled for a second time with a similar injury.

(j) *Income Taxes*

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

(k) *Insurance Related Assessments*

The Fund is subject to assessments made by the Louisiana 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 accruals for insurance related assessments are adjusted in the year assessment rate changes and claims estimates are made.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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 and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees are based on earned normal premiums (ENP) for the years ended December 31, 2022 and 2021. Beginning in 2022, the LMA administrative service agreement fee was amended to also include payment of the Fund's annual interest earnings. The respective percentages of the earned normal premiums are as follows:

	2022	2021
Expenses (and current fee structure):		
Administrative fees – LMA (12.50% of ENP)	\$ 896,085	\$ 827,612
Interest earnings	552,396	-
	\$ 1,448,481	\$ 827,612
Service agent fees - RMI (11.00% and 10.00% of ENP, respectively)	\$ 788,555	\$ 662,090
Reinsurance premium - LMRFA (27.25% of ENP)	\$ 1,953,466	\$ 1,804,195
Reinsurance recoveries from LMRFA	\$ 2,410,826	\$ 3,417,646
Due to (from) affiliates:		
LMA	(\$ 198,595)	(\$ 377,343)
RMI	(85,888)	(146,144)
LMRFA	331,597	96,131
	\$ 47,114	(\$ 427,356)

Also see Note 3 for additional reinsurance receivable balances with LMRFA and estimated future recoverables.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS (continued)

During the year ended December 31, 2021, the Fund and LMRMA Public Liability Fund entered into an agreement with LMA to loan funds to LMA, a total of \$8 million, for the purpose of the purchase of an office building. The terms of the agreement dated December 20, 2021, state that LMA promises to pay the Fund \$5 million and the LMRMA Public Liability Fund \$3 million in principal with interest thereon at the initial rate per annum equal to the average yield on all of LMRMA investments as of December 31, 2021. Beginning January 1, 2022, LMA pledges the future administrative fees it receives from the Fund and the LMRMA Public Liability Fund as payment for the principal and interest on this note not to exceed \$1.5 million per year. The note is secured by a mortgage on the property purchased and was reduced with net proceeds from the sale of the prior LMA office building during 2022. The terms also state that the interest rate shall be adjusted on January 1 each year beginning on January 1, 2023, based on the average yield on all of LMRMA investments for the then immediately preceding 12 months. Interest and principal are payable in annual installments beginning on the 20th of December 2022 and each year thereafter until paid, with the payments varying as interest rate varies. The note receivable balance was \$2,655,174 and \$5,000,000 as of December 31, 2022 and 2021, respectively. The interest income recognized during 2022 and 2021 was \$36,044 and \$0, respectively, computed at an interest rate of 0.81% during 2022.

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, 2022 and 2021:

	2022	2021
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	\$ 40,890	\$ 37,508
Less: reinsurance recoverables	29,304	25,837
Liability for unpaid losses at beginning of year, net	11,586	11,671
Net incurred related to:		
Current year	4,435	3,423
Prior years	(1,290)	35
Total incurred	3,145	3,458
Net paid related to:		
Current year	743	586
Prior years	1,724	2,957
Total paid	2,467	3,543
Liability for unpaid losses at end of year, gross	41,714	40,890
Less: reinsurance recoverables (note 5)	29,450	29,304
Liability for unpaid losses at end of year, net	\$ 12,264	\$ 11,586

In addition to the estimated unpaid claims receivable from the reinsurers (primarily LMRFA), there are \$401,427 and \$527,315 of paid claims which are receivable from the reinsurer at December 31, 2022 and 2021, respectively. See Note 5.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)

During 2022 and 2021, the Fund experienced favorable and slightly unfavorable development, respectively, on unpaid claims liabilities established in prior years. The 2022 favorable development is due to claims severity compared to prior estimates. In establishing claims liability reserves, management considers facts currently known, historical claims information, industry average loss data, and the present state of laws and coverage. However, the process of establishing loss reserves is a complex and imprecise science that reflects significant judgmental factors. Management believes that the aggregate loss reserves at December 31, 2022, are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2022, will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for the years ended December 31, 2022 and 2021, based on the Fund's anticipated payout patterns and a discount rate assumption of 2.5% and 2.0%, respectively, which is intended to approximate the investment earnings over the reserve payout period. The effect of the reserve discounts was \$1,173,000 and \$850,000 at December 31, 2022 and 2021, respectively.

The Fund is also subject to assessments by the Louisiana Second Injury Fund and Office of Workers Compensation each year based on the amount of assessable benefits paid each year. The Fund includes in accrued expenses and estimated liabilities to be paid for assessable benefits paid and estimated to be paid in future periods.

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 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, 2022 and 2021.

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. The Fund may also make investments in bonds or debentures provided certain conditions are met regarding credit quality. Included in investments are money market accounts and repurchase agreements. The Fund's policy is to wire-transfer cash as needed from investments to support disbursements.

Statement Number 40 of the Governmental Accounting Standards Board (GASB Statement No. 40), *Deposits and Investment Risk Disclosures* established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31, 2022 and 2021:

<u>Investment Type</u>	<u>2022</u>		<u>2021</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 7,428,874	\$ 7,888,628	\$ 4,781,600	\$ 4,652,053
U.S. Government mortgage-backed securities	4,774,248	5,067,274	5,953,287	5,785,223
U.S. Agency debt obligations	8,144,048	8,926,344	9,967,620	9,738,912
Municipal bonds	6,234,904	6,796,180	7,038,049	7,140,573
Corporate bonds	3,697,146	4,036,472	4,046,249	4,107,338
Money market funds	<u>429,687</u>	<u>429,687</u>	<u>228,644</u>	<u>228,644</u>
TOTAL	<u>\$ 30,708,907</u>	<u>\$ 33,144,585</u>	<u>\$ 32,015,449</u>	<u>\$ 31,652,743</u>

The Fund's investments reflected a net unrealized loss at December 31, 2022 of \$2,435,678 which is attributed to the increases in the market interest rate environment which is further addressed below in Interest Rate Risk.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured, or are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government, municipal, and corporate debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a tool with which to assess credit risk on debt obligations. U.S. Government debt securities and money market funds are not required to be rated.

All of the Fund's investments with the exception of money market investments, and corporate and municipal bonds, are issued or backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Credit ratings as of December 31, 2022 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 4,391,044	\$ 1,843,860
Corporate bonds	883,926	2,813,220
	<u>\$ 5,274,970</u>	<u>\$ 4,657,080</u>

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2022:

<u>INVESTMENT TYPE</u>	INVESTMENT MATURITIES (in years)				
	Estimated Fair Value	Less than 1	1-5	6-10	Greater than 10
U.S. Government agency debt obligations	\$ 8,144,048	\$ 1,635,987	\$ 2,981,224	\$ 3,526,837	\$ -
U.S. Treasury bonds and notes	7,428,874	440,247	4,105,997	2,882,630	-
Municipal bonds	6,234,904	-	6,234,904	-	-
Corporate bonds	3,697,146	-	3,697,146	-	-
Money market funds	429,687	429,687	-	-	-
	25,934,659	<u>\$ 2,505,921</u>	<u>\$ 17,019,271</u>	<u>\$ 6,409,467</u>	<u>\$ -</u>
U.S. Government mortgage-backed securities	4,774,248				
TOTAL	<u>\$ 30,708,907</u>				

Investment loss for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Interest income	\$ 552,396	\$ 658,440
Realized (losses) gains, net	(32,166)	346,224
Unrealized losses arising during the year	(2,798,384)	(1,596,331)
	<u>\$ (2,278,154)</u>	<u>\$ (591,667)</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (continued)

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

The fair value of investment securities was determined as follows at December 31, 2022 and 2021:

December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 7,428,874	\$ -	\$ 7,428,874
U.S. Government mortgage- backed securities	-	4,774,248	4,774,248
U.S. Agency debt obligations	8,144,048	-	8,144,048
Municipal bonds	-	6,234,904	6,234,904
Corporate bonds	-	3,697,146	3,697,146
Money market funds	429,687	-	429,687
	<u>\$ 16,002,609</u>	<u>\$ 14,706,298</u>	<u>\$ 30,708,907</u>

December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 4,781,600	\$ -	\$ 4,781,600
U.S. Government mortgage- backed securities	-	5,953,287	5,953,287
U.S. Agency debt obligations	9,967,620	-	9,967,620
Municipal bonds	-	7,038,049	7,038,049
Corporate bonds	-	4,046,249	4,046,249
Money market funds	228,644	-	228,644
	<u>\$ 14,977,864</u>	<u>\$ 17,037,585</u>	<u>\$ 32,015,449</u>

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

5. REINSURANCE POLICY COVERAGE

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 claim obligations remains with the participants. LMRFA provides 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 in accident years prior to 2012 and \$250,000 for 2012 and future years.

The following are condensed Statements of Net Position for LMRFA at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Assets	\$ 46,061,638	\$ 51,537,975
Liabilities	<u>40,323,221</u>	<u>37,964,055</u>
Net position	<u>\$ 5,738,417</u>	<u>\$ 13,573,920</u>

At December 31, 2022 and 2021, the Fund included approximately \$29.5 million and \$29.3 million, respectively, as recoverable from LMRFA (included in the liabilities above) which reduces the Fund's liabilities for anticipated losses (note 3). The Fund's financial statements have been prepared on the assumption LMRFA has financial resources to honor all of its financial obligations. Should LMRFA not be able to meet its financial obligations to the Fund, the Fund remains primarily obligated for the liabilities insured by LMRFA. Management continues to evaluate the amounts recoverable from LMRFA and believes the amounts are all recoverable. Effective March 5, 2018, LMRFA purchased commercial reinsurance covering exposures incurred related to the Workers' Compensation Fund covering losses in excess of \$400,000 and is limited to 50% of \$1 million per occurrence for the period from March 5, 2018 to December 31, 2018. Effective January 1, 2019, LMRFA purchased similar coverage which covered the period from January 1, 2019 through December 31, 2022 covering losses in excess of \$400,000 and is limited to 50% of \$2 million per occurrence.

6. CONTINGENCIES

The Fund is involved in various insurance-related claims and legal actions arising from the normal conduct of business. Management of the Fund establishes estimated liabilities for reported and unreported contingencies. The Fund believes the outcome of these proceedings is mitigated and will not have a material effect on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND ESTIMATED CLAIM ADJUSTMENT EXPENSE

DECEMBER 31, 2022
(Unaudited)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2021 and as of the end of each of the last nine years. The table below does not include costs on estimated incurred claims related to unallocated loss adjustment expenses.

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
	(in thousands)									
ENP and investment income (loss)	\$ 4,927	\$ 6,029	\$ 8,872	\$ 8,904	\$ 9,144	\$ 10,547	\$ 10,847	\$ 8,270	\$ 10,119	\$ 8,956
Operating costs, unallocated	4,282	4,196	4,026	4,363	4,836	4,740	5,319	4,087	12,669	7,317
Estimated incurred claims and expense, end of policy year	4,697	3,772	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343
Paid (cumulative) as of:										
End of policy year	743	586	1,021	832	971	993	903	811	1,198	1,195
One year later	-	1,367	1,957	2,180	2,308	2,415	2,111	1,944	3,071	2,514
Two years later	-	-	2,331	3,086	2,800	3,266	2,770	2,534	3,825	3,464
Three years later	-	-	-	3,304	3,212	3,702	3,199	3,042	4,637	4,069
Four years later	-	-	-	-	3,514	4,047	3,312	3,385	4,855	4,406
Five years later	-	-	-	-	-	4,246	3,504	3,507	5,004	4,656
Six years later	-	-	-	-	-	-	3,654	3,659	5,187	4,719
Seven years later	-	-	-	-	-	-	-	3,699	5,236	4,816
Eight years later	-	-	-	-	-	-	-	-	5,153	4,965
Nine years later	-	-	-	-	-	-	-	-	-	5,022
Estimated incurred claims and claims expense:										
End of policy year	4,697	3,772	4,530	4,346	4,379	4,670	4,653	5,107	6,286	6,343
One year later	-	3,367	3,902	4,407	4,674	4,705	4,084	4,595	5,979	5,823
Two years later	-	-	3,620	4,895	4,373	4,888	4,494	4,298	6,179	5,847
Three years later	-	-	-	4,490	4,315	4,861	4,247	4,244	6,284	5,896
Four years later	-	-	-	-	4,188	5,110	4,193	4,250	5,882	5,729
Five years later	-	-	-	-	-	4,993	4,188	4,231	5,680	5,464
Six years later	-	-	-	-	-	-	4,092	4,305	5,757	5,387
Seven years later	-	-	-	-	-	-	-	4,190	5,787	5,405
Eight years later	-	-	-	-	-	-	-	-	5,507	5,427
Nine years later	-	-	-	-	-	-	-	-	-	5,372
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(405)	(910)	144	(191)	323	(561)	(917)	(779)	(971)

See accompanying independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2022

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

**No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, in accordance with the 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, the financial statements of the business-type activities of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund (the Fund), which comprise the statement of financial position as of December 31, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2022

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions

We have audited the accompanying financial statements of the business type activities of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund), which comprise the statements of net position as of as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Louisiana Municipal Association - Unemployment Compensation Fund and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Association - Unemployment Compensation Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Louisiana Municipal Association - Unemployment Compensation Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Louisiana Municipal Association - Unemployment Compensation Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisiana Municipal Association – Unemployment Fund's basic financial statements. The accompanying schedule of compensation, benefits and other payments to Chief Executive Officer included on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of compensation, benefits and other payments to Chief Executive Officer is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of compensation, benefits and other payments to Chief Executive Officer is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reports Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 23, 2023, 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 grant agreements and other matters which appears on pages 18 and 19. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS **(UNAUDITED)**

The Management's Discussion and Analysis of the Louisiana Municipal Association - Unemployment Compensation Fund's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2022 and 2021. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- The assets of the Fund exceeded its liabilities at December 31, 2022 by \$4,842,225 compared to \$5,035,000 at December 31, 2021, which is approximately a 3.83% decrease from the previous year.
- At December 31, 2022 and 2021, the Fund's assets totaled \$5,235,528 and \$5,466,392, respectively, which consisted primarily of cash and investments.
- The Fund reported premiums earned of \$413,566 and \$387,603 during the years ended December 31, 2022 and 2021, respectively. Change in net position was a decrease of \$192,775 in 2022 and an increase of \$96,539 in 2021.
- The Fund reported investment loss of \$327,653 and \$68,990 during the years ended December 31, 2022 and 2021, respectively. The investment loss is attributed primarily to fluctuations in market values of the investment portfolio.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the financial statements, which explain some of the information in the financial statements in more detail.

The basic financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector. The Statements of Net Position includes all of the Fund's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Fund's members and creditors (liabilities). These statements provide the basis for computing rate of return, evaluating the capital structure of the Fund and assessing the liquidity and financial flexibility of the Fund. All of the year's revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Fund's operations over the year and can be used to determine whether the Fund has successfully recovered all its costs through its premium and investment income, profitability and credit worthiness. The final required financial statement is the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Fund's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Overview of the Financial Statements (continued)

The preparation of these financial statements requires the utilization of significant estimates, many of which will not be known for many years. Changes in estimates as well as the differences in actual results and estimated amounts will be included in the Statements of Revenues, Expenses and Changes in Net Position as these circumstances become known.

Financial Analysis of the Fund

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Fund is in a better financial position as a result of the year's activities. These statements report the net position of the Fund and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Fund's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions and new or changed government legislation.

Condensed Statements of Net Position

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Total assets	\$ 5,235,528	\$ 5,466,392
Total liabilities	<u>393,303</u>	<u>431,392</u>
Net position	<u>\$ 4,842,225</u>	<u>\$ 5,035,000</u>

The Fund's total assets consist almost entirely of investments in U.S. Treasury and U.S. Agency securities and cash equivalents. The Fund's liabilities consist of estimated benefits and related administration costs payable at year end.

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Financial Analysis of the Fund (continued)

**Condensed Statements of Revenues and Expenses and Changes in Net Position
for the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 413,566	\$ 387,603
Operating expenses	<u>278,688</u>	<u>222,074</u>
Operating gain	134,878	165,529
Non-operating loss	<u>(327,653)</u>	<u>(68,990)</u>
Change in net position	<u>\$ (192,775)</u>	<u>\$ 96,539</u>

Operating revenues increased by approximately 7% from the year ended December 31, 2021 to 2022. Claims expense increased approximately 38% during the year ended December 31, 2022 as a result of an increase in unemployment claims incurred. Unemployment claims were lower in 2021 due to federal programs in place in response to coronavirus covering some claims for a portion of the year. Due to the slight increase in both revenues and expenses offset by the increase in investment loss, the Fund's net position for 2022 decreased by \$192,775.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Fund's finances, as well as demonstrate accountability for funds the Fund receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Association – Unemployment Compensation Fund, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
Assets		
Cash and cash equivalents (note 2)	\$ 367,574	\$ 516,473
Investments (note 2)	4,738,227	4,822,131
Accounts receivable	107,489	109,375
Accrued interest receivable	22,238	18,413
Total Assets	\$ 5,235,528	\$ 5,466,392
Deferred outflows	-	-
Liabilities		
Unpaid claims liability (note 3)	\$ 350,000	\$ 350,000
Accrued expenses	43,303	81,392
Total Liabilities	393,303	431,392
Deferred inflows	-	-
Net position	4,842,225	5,035,000
Total liabilities, deferred inflows, and net position	\$ 5,235,528	\$ 5,466,392

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUES</u>		
Premiums earned	\$ 413,566	\$ 387,603
Total operating revenues	<u>413,566</u>	<u>387,603</u>
<u>OPERATING EXPENSES</u>		
Claims expense (note 3)	184,849	133,663
Service agent fees	65,237	63,140
Miscellaneous	28,602	25,271
Total operating expenses	<u>278,688</u>	<u>222,074</u>
<u>OPERATING INCOME</u>	134,878	165,529
<u>NON-OPERATING LOSS</u>		
Investment loss - net	<u>(327,653)</u>	<u>(68,990)</u>
<u>CHANGE IN NET POSITION</u>	(192,775)	96,539
NET POSITION - BEGINNING OF YEAR	<u>5,035,000</u>	<u>4,938,461</u>
NET POSITION - END OF YEAR	<u>\$ 4,842,225</u>	<u>\$ 5,035,000</u>

The accompanying notes are an integral part of these financial statements.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Cash flows from operating activities:		
Operating income	\$ 134,878	\$ 165,529
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	1,886	(8,431)
Accrued expenses and unpaid claims liability	(38,089)	76,844
Net cash provided by operating activities	98,675	233,942
Cash flows from investing activities:		
Purchases of investments	(1,702,258)	(3,617,526)
Proceeds from sale or maturity of investments	1,352,127	3,508,995
Investment income received	102,557	109,006
Net cash (used in) provided by investing activities	(247,574)	475
Net change in cash	(148,899)	234,417
Cash, beginning of year	516,473	282,056
Cash, end of year	\$ 367,574	\$ 516,473

The accompanying notes are an integral part of these 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 who have joined together through self-insurance agreements to provide unemployment compensation fund insurance to member municipalities. Administration of the Fund is vested in the Executive Board of the Louisiana Municipal Association (LMA). If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

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, 2022, there were approximately 6,000 participants and 143 participating municipalities. As of December 31, 2021, there were approximately 6,000 participants and 143 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their net position is available only to the respective entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 10 and GASB Statement No. 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. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement 62, Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements.

Since the business of the Fund is essentially that of an insurance company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

(c) Net Position

The Fund has implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; GASB Statement No. 63 provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources and also redefined the difference between total assets and total liabilities presented in the Statement of Net Position.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Cash and Cash Equivalents

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

(e) Investments

Investments are reported at estimated fair value. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized gains and losses and changes in unrealized gains and losses on investments recorded at fair value are included in net investment income. Investments include money market accounts, repurchase agreements, U.S. Government Agency obligations, corporate and municipal bonds, and U.S. Treasury securities.

(f) Unpaid Claims Liability

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

(g) Income Taxes

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

(h) Premium Income and Accounts Receivable

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

The Fund considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If accounts become uncollectible, they will be charged to operations when that determination is made. Collections on accounts previously written off are included in other income when received.

(i) Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. 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 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, 2022 and 2021.

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. The Fund may also make investments in other bonds or debentures provided certain conditions are met regarding credit quality. Included in investments are money market accounts and repurchase agreements.

GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, established and modified disclosure requirements related to investment risk. This section describes the various types of investment risk and the Funds exposure to each type.

The following table presents the estimated fair value and amortized cost of investments permissible under the rules, objectives and guidelines of the Fund as of December 31:

<u>Investment Type</u>	<u>2022</u>		<u>2021</u>	
	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>
U.S. Treasury bonds and notes	\$ 1,309,285	\$ 1,409,930	\$ 911,575	\$ 906,891
U.S. Government mortgage-backed securities	737,170	774,408	656,375	639,288
U.S. Agency debt obligations	1,647,984	1,775,803	1,836,165	1,780,697
Money market funds	74,494	74,494	64,822	64,822
Corporate bonds	469,509	512,373	513,715	521,463
Municipal bonds	<u>499,785</u>	<u>536,578</u>	<u>839,479</u>	<u>846,145</u>
TOTAL	<u>\$ 4,738,227</u>	<u>\$ 5,083,586</u>	<u>\$ 4,822,131</u>	<u>\$ 4,759,306</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Exposure to custodial credit risk arises when securities are uninsured or are not registered in the name of the Fund and are held by either the counterparty or the counterparty's trust department or agent, but not in the Fund's name.

The Fund's investments in government, municipal, and corporate debt obligations are uninsured on the performance of the custodian and are exposed to custodial credit risk because they are held by a counterparty. Investments in external investment pools, mutual funds, and other pooled investments are not exposed to custodial credit risk because of their natural diversification and the diversification required by the Securities and Exchange Commission.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized standardized rating systems are a good tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated.

All of the Fund's investments with the exception of money market investments, and corporate and municipal bonds, are issued or backed by the U.S. Government. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Fund's investment in a single issuer. The Fund has no investments in any one issuer that represented 5% or more of total investments, other than the U.S. Government.

Credit ratings as of December 31, 2022 are as follows:

	<u>Prime (1)</u>	<u>High-Grade (2)</u>
Municipal bonds	\$ 499,785	\$ -
Corporate bonds	<u>117,857</u>	<u>351,652</u>
	<u>\$ 617,642</u>	<u>\$ 351,652</u>

(1) Prime credit rating is defined as S&P grade AA+ or better or Moody's grade Aa1 or better.

(2) High-grade credit rating is defined as S&P grade A+ through AA or Moody's grade A1 through Aa2.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is defined as the risk that changes in overall market interest rates will adversely affect the fair value of an investment. The risk is applicable to debt investments with fair values that are sensitive to changes in interest rates. One indicator of the measure of interest rate risk is the dispersion of maturity dates for debt instruments. The following table shows the Fund's fixed income investments and maturities in actively-managed accounts at December 31, 2022:

	Estimated Fair Value	Less Than 1 Year	1 – 5 Years	5 – 10 Years	Over 10 Years
U.S. Treasury bonds and notes	\$ 1,309,285	\$ 49,393	\$ 752,673	\$ 507,219	\$ -
U.S. Agency debt obligations	1,647,984	264,972	816,328	566,684	-
Money market funds	74,494	74,494	-	-	-
Municipal bonds	499,785	151,649	348,136	-	-
Corporate bonds	469,509	-	469,509	-	-
	<u>4,001,057</u>	<u>\$ 540,508</u>	<u>\$ 2,386,646</u>	<u>\$ 1,073,903</u>	<u>\$ -</u>

U.S. Government mortgage-backed securities	<u>737,170</u>
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TOTAL	<u>\$ 4,738,227</u>
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Investment (loss) income for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Interest income	\$ 84,509	\$ 82,217
Net realized gain (loss)	(3,978)	16,918
Unrealized net (loss) gain arising during the year	<u>(408,184)</u>	<u>(168,125)</u>
	<u>\$ (327,653)</u>	<u>\$ (68,990)</u>

Fair Value

The Fund uses fair value measurements to record investment assets and to determine fair value disclosures based on a fair value hierarchy of valuation inputs established by generally accepted accounting principles. The three levels of the fair value hierarchy are described below:

Level 1 – unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – quoted prices for similar assets or liabilities in active markets or identical or similar assets or liabilities in inactive markets that are observable for the asset or liability.

Level 3 – inputs are unobservable and significant to the fair value measurement.

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS (continued)

Fair Value (continued)

The fair value of investment securities was determined as follows at December 31, 2022 and 2021:

December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 1,309,285	\$ -	\$ 1,309,285
U.S. Government mortgage- backed securities	-	737,170	737,170
U.S. Agency debt obligations	1,647,984	-	1,647,984
Money market funds	74,494	-	74,494
Corporate bonds	-	469,509	469,509
Municipal bonds	-	499,785	499,785
	<u>\$ 3,031,763</u>	<u>\$ 1,706,464</u>	<u>\$ 4,738,227</u>

December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Estimated Fair Value</u>
U.S. Treasury bonds and notes	\$ 911,575	\$ -	\$ 911,575
U.S. Government mortgage- backed securities	-	656,375	656,375
U.S. Agency debt obligations	1,836,165	-	1,836,165
Money market funds	64,822	-	64,822
Corporate bonds	-	513,715	513,715
Municipal bonds	-	839,479	839,479
	<u>\$ 2,812,562</u>	<u>\$ 2,009,569</u>	<u>\$ 4,822,131</u>

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the Fund's aggregate unpaid claims liability for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>350</u>	\$ <u>350</u>
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	<u>188</u>	<u>134</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	79	30
Claims and claim adjustment expenses attributable to insured events of prior years	<u>109</u>	<u>104</u>
Total payments	<u>188</u>	<u>134</u>
Total unpaid claims and claims adjustment expenses liability at end of year	\$ <u><u>350</u></u>	\$ <u><u>350</u></u>

SUPPLEMENTARY INFORMATION

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO
CHIEF EXECUTIVE OFFICER
YEAR ENDED DECEMBER 31, 2022

Agency Head Name: John Gallagher

Purpose	Amount
Salary, including incentive and bonus	\$ -
Benefits-insurance	-
Benefits-retirement	-
Deferred compensation	-
Benefits-other	-
Car allowance	-
Vehicle provided by Agency	-
Cell phone	-
Dues	-
Vehicle rental	-
Per diem	-
Reimbursements	-
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other (including payments made by other parties on behalf of the agency head)	-

**No compensation of the Chief Executive Officer is included in the above schedule of compensation, benefits and other payments as no such amounts were paid from "public funds" as required to be reported pursuant of R.S. 24:513(A)(3), as amended by Act 462 in 2015, and applicable guidance published by the Louisiana Legislative Auditor.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Officers and Trustees
Louisiana Municipal Association
Unemployment Compensation Fund
Baton Rouge, Louisiana

We have audited, in accordance with the 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, the financial statements of Louisiana Municipal Association – Unemployment Compensation Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 23, 2023

LOUISIANA MUNICIPAL ASSOCIATION
INSURANCE RISK POOLS

REPORT ON STATEWIDE
AGREED-UPON PROCEDURES on COMPLIANCE and CONTROL
AREAS

FOR THE YEAR ENDED DECEMBER 31, 2022

Independent Accountant’s Report
On Applying Agreed-Upon Procedures

To Board of Directors of
The Louisiana Municipal Association and the
Louisiana Legislative Auditor

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor’s (LLA’s) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2022, through December 31, 2022. The Entity’s management is responsible for those C/C areas identified in the SAUPs. The LMA Insurance Risk Pools consist of the following funds and will collectively be referred to as the Entity or the Fund’s:

- Louisiana Municipal Reserve Fund Agency
- Louisiana Municipal Risk Management Agency Public Liability Fund
- Louisiana Municipal Risk Management Agency Workers' Compensation
- Louisiana Municipal Association - Unemployment Compensation Fund
- Louisiana Municipal Risk Management Agency – Accident and Health Fund

The Entity has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA’s SAUPs for the fiscal period January 1, 2022, through December 31, 2022. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “*no exception noted*” or for step 25 “*we performed the procedure and discussed the results with management*”. If not, then a description of the exception ensues.

A - Written Policies and Procedures

1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):
 - a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget.

The Entity does not have personnel and do not maintain written policies or procedures, instead they follow the policies and procedures of LMA.

- b) **Purchasing**, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the Public Bid Law; and (5) documentation required to be maintained for all bids and price quotes.

Not applicable, see A1a.

- c) **Disbursements**, including processing, reviewing, and approving

Not applicable, see A1a.

- d) **Receipts/Collections**, including receiving, recording, and preparing deposits. Also, policies and procedures should include management's actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g., periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

Not applicable, see A1a.

- e) **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.

Not applicable, see A1a.

- f) **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.

Not applicable, see A1a.

- g) **Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)**, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

Not applicable, see A1a.

- h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.

Not applicable, see A1a.

- i) **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.

Not applicable, see A1a.

- j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

Not applicable, see A1a.

- k) **Information Technology Disaster Recovery/Business Continuity**, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

Not applicable, see A1a.

- l) **Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Not applicable, see A1a.

B - Board or Finance Committee

- 2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

No exception noted.

- b) For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the nonprofit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

No exception noted.

- c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

No exception noted.

C - Bank Reconciliations

3. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

A listing of bank accounts was provided and included a total of 5 bank accounts. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected to test the bank reconciliations for all five bank accounts, resulting in five bank reconciliations obtained and subjected to the below procedures.

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

No exceptions noted.

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

No exceptions noted.

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

No exceptions noted.

D - Collections (excluding electronic funds transfers)

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

A listing of deposit sites was provided which included five deposit sites. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected all 5 deposit sites and performed the procedures below.

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

A listing of collection locations for each deposit site selected in procedure #4 was provided and included one collection location for four funds and one lockbox location for another fund. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we randomly selected one collection location for each deposit site. Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

Not applicable.

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

No exceptions noted.

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

Excluding the lockbox transactions, the same employee is responsible for depositing the cash in the bank and recording the related transaction.

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

No exceptions noted.

6. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.

No exceptions noted.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under “Bank Reconciliations” above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

We randomly selected two deposit dates for each of the 3 bank accounts selected in procedure #3. One fund had all related party deposits, whereas the other fund only had lockbox deposits. Therefore, only three bank accounts were tested. We obtained supporting documentation for each of the 6 deposits and performed the procedures below.

- a) Observe that receipts are sequentially pre-numbered.

The Entity does not maintain sequentially pre-numbered receipts.

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

The Entity does not maintain sequentially pre-numbered receipts, system reports, or other related collection documentation. As such, we were unable to perform the procedure.

- c) Trace the deposit slip total to the actual deposit per the bank statement.

No exceptions noted.

- d) Observe the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100 and the cash is stored securely in a locked safe or drawer).

The deposit was not made within one business day of receipt for two deposit dates for one of the bank accounts. Exception noted.

- e) Trace the actual deposit per the bank statement to the general ledger.

No exceptions noted.

E - Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)

8. Obtain a listing of locations that process payments for the fiscal period and management’s representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

The listing of locations that process payments for the fiscal period was provided, which included five funds and one location. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected all 5 locations and performed the procedures on the next page.

9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

The listing of employees involved with non-payroll purchasing and payment functions for each payment processing location selected in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

No exceptions noted.

- b) At least two employees are involved in processing and approving payments to vendors.

No exceptions noted.

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

The person processing payments was not prohibited from adding / modifying vendor files. Exception noted.

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

No exceptions noted.

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

A listing of non-payroll disbursements for each payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure.

From each of the listings provided, we randomly selected 5 disbursements and performed the procedures on the next page.

- a) Observe that the disbursement matched the related original itemized invoice, and that supporting documentation indicates that deliverables included on the invoice were received by the entity.

No exceptions noted.

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

For the 5 disbursements selected for our procedures, a single employee processes payments and has access to add/modify vendor files.

F - Credit Cards/Debit Cards/Fuel Cards/P-Cards

11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

The Entity does not have any active credit cards, bank debit cards, fuel cards or P-Cards.

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

Not applicable as noted above.

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]

Not applicable as noted above.

- b) Observe that finance charges and late fees were not assessed on the selected statements.

Not applicable as noted above.

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e., each card should have 10 transactions subject to testing). For each transaction, observe it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a “missing receipt statement” that is subject to increased scrutiny.

Not applicable as noted on previous page.

G - Travel and Travel-Related Expense Reimbursements (excluding card transactions)

14. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management’s representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

Not applicable. See #1.

- a) If reimbursed using a per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).

Not applicable as noted above.

- b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.

Not applicable as noted above.

- c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

Not applicable as noted above.

- d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Not applicable as noted above.

H - Contracts

15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

An active vendor list for the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

From the listing provided, we selected the only contract listed and performed the procedures below.

- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

For the one contract select for our procedures, none were subject to Louisiana Public Bid Law.

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

No exceptions noted.

- c) If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).

No exceptions noted.

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

We randomly selected 1 payment for the contract selected in procedure #15 and performed the specified procedures. No exceptions noted.

I - Payroll and Personnel

16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

Not applicable. See #1.

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

Not applicable as previously noted.

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).

Not applicable as previously noted.

- b) Observe that supervisors approved the attendance and leave of the selected employees or officials.

Not applicable as previously noted.

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

Not applicable as previously noted.

- d) Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.

Not applicable as previously noted.

18. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee or officials' cumulative leave records, agree the pay rates to the employee or officials' authorized pay rates in the employee or officials' personnel files, and agree the termination payment to entity policy.

Not applicable as previously noted.

19. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Not applicable as previously noted.

J - Ethics

20. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above obtain ethics documentation from management, and:

- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

Not applicable. See #1.

- b) Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity’s ethics policy during the fiscal period, as applicable.

Not applicable as noted above.

K - Debt Service

21. Obtain a listing of bonds/notes issued during the fiscal period and management’s representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

Not applicable.

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management’s representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

Not applicable.

L - Fraud Notice

23. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management’s representation that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

Management has represented to us there were no misappropriations of public funds and assets during the fiscal period.

24. Observe that the entity has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud, waste, or abuse of public funds.

No exceptions noted.

M - Information Technology Disaster Recovery/Business Continuity

25. Perform the following procedures, **verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”**

- a) Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if no written documentation, inquire of personnel responsible for backing up critical data) and observe that such backup occurred within the past week. If backups are stored on a physical medium (e.g., tapes, CDs), observe evidence that backups are encrypted before being transported.

We performed the procedure and discussed the results with management.

- b) Obtain and inspect the entity’s most recent documentation that it has tested/verified that its backups can be restored (if no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.

We performed the procedure and no exceptions noted.

- c) Obtain a listing of the entity’s computers currently in use and their related locations, and management’s representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.

We performed the procedure and no exceptions noted.

N - Sexual Harassment

26. Using the 5 randomly selected employees/officials from procedure #16 under “Payroll and Personnel” above, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year.

Not applicable. See #1.

27. Observe the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity’s premises if the entity does not have a website).

Not applicable as noted above.

28. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe it includes the applicable requirements of R.S. 42:344:

- a) Number and percentage of public servants in the agency who have completed the training requirements;

Not applicable as previously noted.

- b) Number of sexual harassment complaints received by the agency;

Not applicable as previously noted.

- c) Number of complaints which resulted in a finding that sexual harassment occurred;

Not applicable as previously noted.

- d) Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and

Not applicable as previously noted.

- e) Amount of time it took to resolve each complaint.

Not applicable as previously noted.

We were engaged by The Entity to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of The Entity and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

Postlethwaite & Netterville

Baton Rouge, LA
June 23, 2023

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY

6767 Perkins Rd. Post Office Box 4327 Baton Rouge, Louisiana 70821

June 23, 2023

RESPONSE TO EXCEPTIONS IN 2022 STATEWIDE AUP REPORT

We agree with the exceptions noted in the AUP Report.

We reconcile the bank accounts monthly so sequentially pre-numbered receipts are not necessary.

Adequate controls are in place to ascertain that deposits are made timely.

Adequate controls exist over payment processing to ensure vendors are paid accurately.

Sincerely,



George Murphy
LMRMA CFO

Administered by the Louisiana Municipal Association

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