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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

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P&N Postlethwaite & Netterville

A Professional Accounting Corporation
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INDEPENDENT AUDITORS' REPORT

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

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 December 31, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2012 and 2011, 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.

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Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 11, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 11, 2013

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, 2012 and 2011. 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, 2012 by $1,624,338 compared to the Funds assets exceeding its liabilities by $927,000 as of December 31, 2011.
- At December 31, 2012, the Fund's assets totaled $4,204,476, which consisted primarily of cash and receivables, as compared to a balance of $3,362,087 at December 31, 2011.
- The Fund reported gross premiums earned of $16,484,577 and $15,884,190 during the years ended December 31, 2012 and 2011, respectively.
- The Fund reported an increase in net position of $697,338 during the year ended December 31, 2012 compared to a decrease in net position of $711,449 during the year ended December 31, 2011.

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.

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 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

	December 31, 2012	December 31, 2011
Total assets	$ 4,204,476	$ 3,362,087
Deferred outflows	-	-
Total liabilities	2,580,138	2,435,087
Deferred inflows	-	-
Net position	$ 1,624,338	$ 927,000

At December 31, 2012, the Fund's assets represent approximately 163% of the Fund's estimated liabilities as compared to 138% at December 31, 2011. The Fund's total liabilities consist primarily of estimated claims payable, which increased approximately 6% from December 31, 2011 primarily as a result of the timing of expenses.

Financial Analysis of the Fund (continued)

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

	2012	2011
Operating revenues	$ 16,484,577	$ 15,884,190
Operating expenses	15,788,901	16,597,440
Operating income (loss)	695,676	(713,250)
Non-operating income	1,662	1,801
Change in net position	$ 697,338	$ (711,449)

The Fund experienced an excess of revenues over expenses in the amount of $697,338 for the current year resulting primarily from a decrease in claims expense. Additionally, there is a slight increase in premiums from the prior year as a result of increased rates offset by a slightly decreased number of participants. (See Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report). During the year ended December 31, 2012, the Fund reported premium income of $16,484,577 and investment income of $1,662. The Fund reported total expenses of $15,788,901, which consisted primarily of claims expense, excess insurance and service agent expenses. Claims expense incurred during the years ended December 31, 2012 and 2011 represented 84% and 93% of premium income, respectively.

Future Changes to the Fund

Effective January 1, 2013, the Fund will be changed from the current self-funded program plan to an LMA sponsored full-insured program through Blue Cross of Louisiana The Fund will continue to offer dental coverage as it has previously done. Management believes the providers of healthcare through these venders will provide benefits and administrative programs expected to comply with requirements of the Affordable Healthcare Act for All Americans which becomes effective in January 2014. Management is continuing to evaluate the expected impacts of this new law on the Fund. See Note 6 for more information.

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, 2012 AND 2011

	2012	2011
Cash and cash equivalents (note 4)	$ 3,564,147	$ 2,643,141
Accounts receivable, net	363,516	568,779
Reinsurance receivable	276,813	150,167
Total assets	$ 4,204,476	$ 3,362,087
Deferred outflows	-	-
Liabilities:		
Unpaid claims liability (note 3)	$ 1,615,000	$ 1,558,000
Accounts payable and other liabilities	659,988	585,787
Due to affiliates (note 2)	305,150	291,300
Total liabilities	2,580,138	2,435,087
Deferred inflows	-	-
Net position	1,624,338	927,000
Total liabilities, deferred inflows, and net position	$ 4,204,476	$ 3,362,087

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, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Premiums earned	$ 16,484,577	$ 15,884,190
Total operating revenues	16,484,577	15,884,190
OPERATING EXPENSES		
Claims expense (note 3)	13,822,258	14,723,367
Reinsurance premiums and commission (note 2)	1,135,332	1,036,527
Service agent fees (note 2)	789,479	804,695
Administrative fees (note 2)	14,495	14,786
Miscellaneous	27,337	18,065
Total operating expenses	15,788,901	16,597,440
OPERATING (LOSS) INCOME	695,676	(713,250)
NON-OPERATING INCOME		
Investment income, net (note 4)	1,662	1,801
CHANGE IN NET POSITION	697,338	(711,449)
NET POSITION - BEGINNING OF YEAR	927,000	1,638,449
NET POSITION - END OF YEAR	$ 1,624,338	$ 927,000

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, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Operating income (loss)	$ 695,676	$ (713,250)
Adjustments to reconcile operating income (loss) to net cash provided (used in) by operations:		
Change in reinsurance receivable	(126,646)	153,101
Change in receivables	205,263	(467,861)
Change in unpaid claims liability	57,000	(498,000)
Change in accounts payable and other liabilities	74,201	(65,007)
Net cash provided by (used in) operating activities	905,494	(1,591,017)
Cash flows from investing activities:		
Investment interest received	1,662	1,801
Net cash provided by investing activities	1,662	1,801
Cash flows from financing activities:		
Change in due to affiliates	13,850	144,805
Net cash (used in) provided by financing activities	13,850	144,805
Net change in cash	921,006	(1,444,411)
Cash, beginning of year	2,643,141	4,087,552
Cash, end of year	$ 3,564,147	$ 2,643,141

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. 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.

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. Effective January 1, 2003, LMRFA began providing reinsurance for the Fund.

As of December 31, 2012 and 2011, there were 49 participating municipalities in the Fund with a total number of participants of 2,003 and 2,186, 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.

(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.

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, effective fiscal year 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as 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 annual 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.

(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. 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 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.

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

(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) Excess Reinsurance

The Fund uses excess reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in Note 5. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy. Reinsurance receivable represents claims paid in excess of excess retention. The Fund considers reinsurance receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established.

(i) Income Taxes

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

(j) 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, and accruals. If future experience diffèrs materially for these estimates and assumptions, the financial statements could be affected.

(k) Reclassifications

Certain items in the 2011 financial statements have been reclassified to be comparative to the 2012 presentation.

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 incurred by the Fund for these services and related balances owed are as follows:

	2012	2011
Expenses and current fee structure:		
Administrative fees – LMA ($.60 per person per month in 2012 and 2011)	$ 14,495	$ 14,786
Service agent fees – RMI ($32.00 in 2012 and 2011 for health and $1.20 for dental participant in 2012 and 2011)	$ 789,479	$ 804,695
Reinsurance premium expense – LMRFA ($40.58 in 2012 and $37.88 in 2011 per person for health participants)	$ 980,250	$ 933,515
Reinsurance commission – RMI ($6.42 in 2012 and $4.18 in 2011 per health participant)	$ 155,081	$ 103,012
Due to affiliates:		
LMA	$ 2,280	$ 137,470
RMI	302,870	153,830
	$ 305,150	$ 291,300

For the years ended December 31, 2012 and 2011, the Fund recorded and offset related claims expense $810,067 and $647,002, respectively received from the LMRFA as it relates to the reinsurance arrangements (see note 5). Of these amounts, $276,813 and $150,167 are receivable as of December 31, 2012 and 2011, respectively.

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:

	2012	2011
	(Amounts in thousands)	
Unpaid claims and claims adjustment expenses liability, beginning of year	$ 1,558	$ 2,056
Incurred claims and claims adjustment expense-provision for insured events	13,822	14,723
Less payments – claims and claims adjustment expenses	(13,765)	(15,221)
Unpaid claims and claims adjustment expenses liability, end of year	$ 1,615	$ 1,558

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

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
ACCIDENT AND HEALTH FUND

NOTES TO FINANCIAL STATEMENTS

4. 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, 2012 and 2011. All demand deposits are insured or collateralized by pledged securities held by an agent in the name of the Fund.

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, 2012 and 2011 consists of the following:

	2012	2011
Interest income	$ 1,662	$ 1,801

5. REINSURANCE POLICY COVERAGE

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

Since January 1, 2003, the Fund has obtained reinsurance from LMRFA to provide the following coverage:

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: $900,000 specific losses in excess of $100,000 each and every loss.

Amounts paid to LMRFA for reinsurance were obtained at a discounted rate compared to what management believes could be obtained in the commercial market. See Note 2 for details on amounts paid to and recovered from LMRFA for reinsurance arrangements. There have been no aggregate collections for either year

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 11, 2013 and determined that the following disclosure is necessary. Effective January 1, 2013, the Fund converted from a self-funded program plan to an LMA sponsored fully-insured program through Blue Cross of Louisiana. The Fund has no underwriting risk and LMRFA no longer provides reinsurance subsequent to this date. The Fund has signed an administrative services agreement for run-out claims with Blue Cross of Louisiana for the period January 1, 2013 through December 31, 2013. An administrative fee equal to 11% of claims paid under the agreement will be paid for these services. The Fund will continue to offer dental coverage as it has previously done.

No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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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 Louisiana Municipal Risk Management Agency Accident and Health Fund (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2012, 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 11, 2013.

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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 11, 2013

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Risk Management Agency
Public Liability Fund
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) which comprise the statements of net position of as of December 31, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2012 and 2011, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Restatement of Prior Financial Statements for Correction of an Error

As discussed in Note 6 to the financial statements, the unpaid claims liability and claims expense as of December 31, 2011 and prior years were determined by management to have been misstated due to the use of erroneous information in the reserve setting process. Accordingly the 2011 financial statements have been restated for amounts reported for the unpaid claims liability, claims expense, and the net position at the beginning of 2011. Our opinion is not modified with respect to that matter.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 11, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. This information has been restated for 2011 and prior years for the reasons described above. 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 11, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY - PUBLIC LIABILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED AND RESTATED)

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, 2012 and 2011. 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

- As more fully described in Note 6, the 2011 financial statements have been restated to correct overstatement of the unpaid claims liability of approximately $502,000. The financial highlights reflect comparison to adjusted 2011 amounts.
- The assets of the Fund exceeded its liabilities at December 31, 2012 by $9,691,084 compared to $8,278,367 as of December 31, 2011, which is a 17% increase.
- At December 31, 2012, the Fund's assets totaled $25,503,677, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and accounts receivable. At December 31, 2011, the Fund's assets totaled $23,557,906 and were comprised of similar types of assets.
- The Fund reported earned premiums of $11,272,040 and $11,324,123 during the years ended December 31, 2012 and 2011, respectively.
- Net position increased by $1,412,717 during the year ended December 31, 2012 compared to an increase of $948,780 during 2011.
- At the end of the current fiscal year, the Fund's net position totaled $9,691,084 or 94% of current year expenses.

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 operations, 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 AND RESTATED)

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:

	2012	2011(as restated)
Total assets	$ 25,503,677	$ 23,557,906
Deferred outflows	-	-
Total liabilities	15,812,593	15,279,539
Deferred inflows	-	-
Net position	$ 9,691,084	$ 8,278,367

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 increased approximately 8% over prior year and consist primarily of investments in U.S. Government and Agency debt securities. Total liabilities remained relatively constant.

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

	2012	2011(as restated)
Operating revenues	$ 11,272,040	$ 11,324,123
Operating expenses	10,307,970	11,039,311
Operating income	964,070	284,812
Non-operating income	448,647	663,968
Change in net position	$ 1,412,717	$ 948,780

Financial Analysis of the Fund (continued)

During the year ended December 31, 2012, the Fund reported premium income of $11,272,040 and investment income of $448,647. Premiums decreased slightly during 2012 due to a reduction in participating groups than in the prior year. The Fund reported total expenses of $10,307,970, which consisted primarily of claims, reinsurance premiums, administrative and service agent fees. Claims expense decreased in the current year primarily as a result of cases settling more favorably during the year ended December 31, 2012 compared to prior periods. The Fund experienced a net increase in net position of $1,412,717 for the current year. See Statements of Revenues, Expenses and Changes in Net position on page 7 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, 2012 AND 2011

ASSETS

	2012	(as restated) 2011
Investments (note 4)	$ 22,738,104	$ 19,317,625
Accounts receivable, net	1,375,587	1,575,788
Reinsurance receivable (note 3)	1,115,988	2,220,181
Deductibles receivable	163,329	245,913
Due from affiliates - net (note 2)	-	98,121
Accrued interest receivable	110,669	100,278
Total assets	$ 25,503,677	$ 23,557,906
Deferred outflows	-	-

LIABILITIES AND NET POSITION

	2012	(as restated) 2011
Liabilities:		
Unpaid claims liability, net (note 3)	$ 13,583,000	$ 12,966,000
Unearned premiums	2,126,709	2,310,681
Due to affiliates - net (note 2)	83,594	-
Accrued expenses	19,290	2,858
Total liabilities	15,812,593	15,279,539
Deferred inflows	-	-
Net Position	9,691,084	8,278,367
Total liabilities, deferred inflows, and net position	$ 25,503,677	$ 23,557,906

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, 2012 AND 2011

	2012	(as restated) 2011
OPERATING REVENUES		
Premiums earned	$ 11,272,040	$ 11,324,123
Total operating revenues	11,272,040	11,324,123
OPERATING EXPENSES		
Claims expense (note 3)	6,697,076	7,644,000
Reinsurance premiums (note 2)	2,046,139	1,572,964
Administrative fees (note 2)	658,527	662,287
Service agent fees (note 2)	682,046	685,943
Bad debt expense	165,172	436,840
Miscellaneous	59,010	37,277
Total operating expenses	10,307,970	11,039,311
OPERATING GAIN	964,070	284,812
NON-OPERATING INCOME		
Investment income, net (note 4)	448,647	663,968
CHANGE IN NET POSITION	1,412,717	948,780
NET POSITION AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED		7,206,587
Restatement for overstatement of reserve liabilities (note 6)		123,000
NET POSITION - BEGINNING OF YEAR, AS RESTATED	8,278,367	7,329,587
NET POSITION- END OF YEAR	$ 9,691,084	$ 8,278,367

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, 2012 AND 2011

	2012	(as restated) 2011
Cash flows from operating activities:		
Operating gain	$ 964,070	$ 284,812
Adjustments to reconcile operating gain to net cash provided by operations:		
Bad debt expense	165,172	436,840
Change in receivables	1,211,415	768,607
Change in unpaid claims liability	617,000	912,000
Change in accrued expenses, unearned premiums and due to affiliates	14,175	(550,628)
Net cash provided by operating activities	2,971,832	1,851,631
Cash flows from investing activities:		
Purchases of investments	(15,540,310)	(6,144,902)
Proceeds from sales and maturities of investments	12,044,431	3,830,590
Investment income received	524,047	462,681
Net cash used in investing activities	(2,971,832)	(1,851,631)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

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, 2012 and 2011, there were 223 and 250 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 company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

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*, effective for the year ended December 31, 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the fund's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. As of December 31, 2012 the Fund has no deferred inflows or outflows.

(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 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, 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.

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.

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

(i) Excess Reinsurance

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

(j) *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.

(k) *Reclassifications*

Certain items in the 2011 financial statements have been reclassified to be comparative to the 2012 presentation.

2. RELATED PARTY TRANSACTIONS

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the earned normal premiums (ENP) for the years ended December 31, 2012 and 2011. The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	2012	2011
Expenses (and current fee structure):		
Administrative fee – LMA (7.00% of ENP)	$ 658,527	$ 662,287
Service agent - RMI (7.25% of ENP)	$ 682,046	$ 685,943
Reinsurance – LMRFA (16.75% of ENP in 2011, 21.75% in 2012)	$ 2,046,139	$ 1,572,964
Reinsurance recoveries from LMRFA	$ 2,407,330	$ 4,273,853
Due (to) from affiliates:		
LMA	($ 814)	($ 2,289)
RMI	312,828	69,879
LMRFA	(390,903)	35,236
LMRMA Workers' Compensation Fund	(4,705)	(4,705)
	($ 83,594)	$ 98,121

NOTES TO FINANCIAL STATEMENTS

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, 2012 and 2011, including the effects of the restatement of 2011 balances further described in Note 6:

	2012	2011
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	$ 26,357	$ 27,393
Less: Reinsurance recoverables	13,391	14,960
Liability for unpaid losses at beginning of year, net	12,966	12,433
Net incurred related to:		
Current year	6,700	6,213
Prior years	(3)	1,431
Total incurred	6,697	7,644
Net paid related to:		
Current year	1,084	853
Prior years	4,996	6,258
Total paid	6,080	7,111
Liability for unpaid losses at end of year, gross	31,430	30,415
Less: Reinsurance recoverables	17,847	17,449
Liability for unpaid losses at end of year, net	$ 13,583	$ 12,966

In addition to the unpaid claims covered by the Fund's reinsurer (LMRFA), there are $1,115,988 and $2,220,181 of paid claims which are recoverable from the reinsurer at December 31, 2012 and 2011, respectively.

During 2012, the Fund experienced slightly favorable development. During 2011, the Fund experienced unfavorable development on unpaid claims liabilities established in prior years. This unfavorable development related primarily to certain adverse judicial proceedings as well as an overall increase in incurred claims. 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, 2012 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2012 will not vary from the above estimates, and such difference could be significant.

The Fund's claims payable have been discounted for December 31, 2012 and 2011, based on the Fund's anticipated payout patterns and discount rate assumptions of 4.5%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was $1,065,000 and $1,198,000 at December 31, 2012 and 2011, 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, 2012 and 2011.

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

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.

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, 2012 and 2011:

	2012		2011	
Investment Type	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S. Government mortgage-backed securities	$ 5,806,260	$ 5,666,371	$ 3,188,746	$ 3,041,836
U.S Agency debt obligations	12,041,910	11,365,047	7,694,809	7,059,705
U.S. Treasury bonds and	586,325	564,925	176,301	162,586
Money market funds	4,303,609	4,303,609	8,257,769	8,257,769
TOTAL	$ 22,738,104	$ 21,899,952	$ 19,317,625	$ 18,521,896

4. 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 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.

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 are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2012 and 2011.

Standard and Poor's Rating	Estimated Fair Value 2012	Estimated Fair Value 2011
Money market funds – not rated	$ 4,303,609	$ 8,257,769
U.S. Government securities		
Not rated	6,392,585	3,188,746
Rated AA+	12,041,910	7,871,110
Total	$ 22,738,104	$ 19,317,625

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.

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, 2012:

		INVESTMENT MATURITIES (in years)			
Investment Type	Estimated Fair Value	Less than 1	1-5	5-10	Greater than 10
Money market funds	$ 4,303,609	$4,303,609	$ -	$ -	$ -
U.S. Treasury bonds and notes	586,325	-	-	586,325	-
U.S. Government mortgage-backed securities	5,806,260	-	198,984	696,913	4,910,363
U.S. Agency debt obligations	12,041,910	515,315	5,752,516	5,774,079	-
	$ 22,738,104	$ 4,818,924	$ 5,951,500	$ 7,057,317	$ 4,910,363

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Interest income	$ 470,686	$ 433,612
Realized losses – net	(64,456)	(18,129)
Unrealized gains arising during the year - net	42,417	248,485
	$ 448,647	$ 663,968

4. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2012 and 2011, LMRFA provided 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 each and every loss in accident years prior to 2012 and $150,000 for 2012

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

Prior to 1993, Louisiana law limited the liability of the municipalities to $500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund 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:

	2012	2011
Assets	$ 44,537,935	$ 43,875,506
Liabilities	43,437,960	40,325,182
Net Position	$ 1,099,975	$ 3,550,324

At December 31, 2012, the Fund included $17.8 million as recoverable from LMRFA which includes reduced liabilities for anticipated losses. 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.

5. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

During 2012, management determined the actuarial calculation of the reserves for unpaid claims liabilities as of December 31, 2011 and prior years was based on erroneous information. This resulted in the overstatement of amounts previously reported for the unpaid claims liability and associated claims expense and understatement of the net position. The 2011 financial statements have been restated to correct this error by decreasing the unpaid claims liability balance from $13,468,000 to $12,966,000 as of December 31, 2011; decreasing the 2011 claims expense balance from $8,023,000 to $7,644,000; and increasing the net position at January 1, 2011 from $7,206,587 to $7,329,587.

6. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 11, 2013 and determined that there were no events that required disclosure. No events occurring after this date have been considered for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
CLAIMS EXPENSE AND RE-ESTIMATED CLAIM ADJUSTMENT EXPENSE
(Unaudited and as restated)

DECEMBER 31, 2012

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 2012 and as of the end of each of the last nine years.

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
					(in thousands)					
ENP and investment income	$ 11,721	$ 11,988	$ 11,811	$ 11,711	$ 12,125	$ 11,275	$ 9,491	$ 9,067	$ 8,992	$ 8,147
Operating costs unallocated	3,611	3,395	3,133	3,266	3,034	3,189	3,081	3,937	3,907	3,791
Estimated incurred claims and claims expense, end of policy year	7,105	6,826	6,440	6,097	5,307	4,959	4,833	4,902	6,876	4,542
Paid (cumulative) as of:										
End of policy year	1,084	931	920	787	954	928	478	789	930	697
One year later		2,644	2,379	2,229	3,532	2,323	1,253	1,941	2,241	1,826
Two years later		-	3,886	3,865	4,595	4,555	2,111	3,534	3,831	2,889
Three years later		-	-	4,737	6,158	5,837	3,039	4,361	4,735	3,838
Four years later		-	-	-	6,868	6,466	4,115	5,027	5,544	4,271
Five years later		-	-	-	-	6,619	4,537	5,666	5,834	4,480
Six years later		-	-	-	-	-	4,613	5,840	6,317	4,988
Seven years later		-	-	-	-	-	-	5,914	6,390	5,664
Eight years later		-	-	-	-	-	-	-	6,400	5,707
Nine years later		-	-	-	-	-	-	-	-	5,711
Re-estimated incurred claims and claims expense										
End of policy year	7,105	6,826	6,287	6,097	5,307	4,959	4,833	4,902	6,876	4,542
One year later		6,826	6,460	6,103	8,682	5,706	4,272	5,300	6,144	5,151
Two years later		-	6,287	6,395	7,038	7,294	4,023	5,338	6,069	4,697
Three years later		-	-	6,103	7,038	6,781	4,369	5,570	5,954	5,009
Four years later		-	-	-	7,035	6,781	4,940	5,741	6,404	4,939
Five years later		-	-	-	-	6,781	4,957	5,749	6,360	4,451
Six years later		-	-	-	-	-	4,940	5,840	6,317	5,237
Seven years later		-	-	-	-	-	-	5,914	6,390	5,664
Eight years later		-	-	-	-	-	-	-	6,400	5,707
Nine years later		-	-	-	-	-	-	-	-	5,711
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	-	-	6	1,728	1,822	107	1,012	(476)	1,169

See accompanying independent auditors' report.

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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 Louisiana Municipal Risk Management Agency – Public Liability Fund (the Fund), which comprise the statement of financial position as of and for the year ended December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2013.

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2012 -1 that we consider to be a significant deficiency.

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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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 11, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
PUBLIC LIABILITY FUND

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

FINDINGS–Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

Criteria: The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition: The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.

Cause: During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.

Effect: These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.

Recommendation: The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

FINANCIAL STATEMENTS

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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

We have audited the accompanying financial statements 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, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency – Workers' Compensation Fund as of December 31, 2012 and 2011, 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.

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Restatement of Prior Financial Statements for Correction of an Error

As discussed in Note 6 to the financial statements, the unpaid claims liability and claims expense as of December 31, 2011 and prior years were determined by management to have been misstated due to the use of erroneous information in the reserve setting process. Accordingly the 2011 financial statements have been restated for amounts reported for the unpaid claims liability, claims expense, and the net position at the beginning of 2011. Our opinion is not modified with respect to that matter.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 11, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 be presented to supplement the basic financial statements. This information has been restated for 2011 and prior years for the reasons described above. 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 11, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED AND RESTATED)

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, 2012 and 2011. 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

- As more fully described in Note 6, the 2011 financial statements have been restated to correct overstatement of the unpaid claims liability of approximately $3 million. The financial highlights reflect comparison to adjusted 2011 amounts.
- The assets of the Fund exceeded its liabilities at December 31, 2012 by $35,024,476 compared to $34,309,647 as of December 31, 2011, which is a 2.1% increase over the previous year.
- At December 31, 2012, the Fund's assets totaled $52,680,014, which consisted primarily of investment securities primarily composed of direct and indirect investments in U.S. Government debt obligations and receivables. At December 31, 2011 the Fund's assets totaled $50,166,028 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of $9,859,588 and $9,392,385 during the years ended December 31, 2012 and 2011, respectively, and an increase in net position of $714,829 and $94,447 during the years ended December 31, 2012 and 2011, respectively.
- At the end of the current fiscal year, the Fund's net position totaled $35,024,476 or 2 0 times the Fund's liabilities. The Funds premiums earned during 2012 were approximately 28% of its net position at December 31, 2012.

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 its costs through its premiums and investment income, profitability and credit worthiness. The final required basic financial statement is the Statement 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED AND RESTATED)

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 Statement 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 at December 31,:

	2012	2011 (restated)
Total assets	$ 52,680,014	$ 50,166,028
Deferred outflows	-	-
Total liabilities	17,655,538	18,848,381
Deferred inflows	-	-
Net position	$ 35,024,476	$ 31,317,647

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 increased approximately 5% and consist primarily of U.S. Government investments and securities. Total liabilities decreased approximately 6% mainly due to the timing of amounts due from municipalities and amounts due to affiliates as well as increases in unpaid claims liabilities. Net position increased approximately 2.1% from the prior year.

Financial Analysis of the Fund (continued)

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

	2012	2011(restated)
Operating revenues	$ 9,859,588	$ 9,392,385
Operating expenses	10,331,547	11,692,874
Operating (loss)	(471,959)	(2,300,489)
Non-operating income	1,186,788	2,394,936
Change in net position	$ 714,829	$ 94,447

Premium revenues increased $467,203 or 5% due to fluctuations in rates from the prior year. Investment income decreased in the current year as a result of unfavorable changes in the estimated fair value of the investment portfolio. During the year ended December 31, 2011, the Fund reported premium income of $9,392,385 and non-operating investment income of $2,394,936. During 2012, the Fund reported total expenses of $10,331,547, which consisted primarily of claims, administrative and service agent fees, excess insurance premiums and bad debt expenses. Total expenses decreased $1,361,327 or 12% compared to the prior year due decreases in claims compared to 2011.

The Fund's increase in net position during 2012 was $714,829, which was greater than the prior year. This is a result of increased gross revenue, lower claims expense offset by less investment income. See Statements of Revenues, Expenses and Changes in Net Position on page 7 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, 2012 AND 2011

ASSETS

	2012	(as restated) 2011
Investments (note 4)	$ 46,632,166	$ 45,829,826
Accounts receivable, net	3,522,759	3,102,374
Reinsurance receivable (note 3)	2,219,150	929,098
Accrued interest receivable	305,939	304,730
Total assets	$ 52,680,014	$ 50,166,028
Deferred outflows	-	-

LIABILITIES AND NET POSITION

	2012	(as restated) 2011
Liabilities:		
Unpaid claims liability (note 3)	$ 11,303,000	$ 10,936,000
Unearned premiums	1,194,743	1,072,401
Due to affiliates - (note 2)	2,210,229	979,571
Accounts payable and accrued expenses	2,947,566	2,868,409
Total liabilities	17,655,538	15,856,381
Deferred inflows	-	-
Net position	35,024,476	34,309,647
Total liabilities, deferred inflows, and net position	$ 52,680,014	$ 50,166,028

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, 2012 AND 2011

	2012	(as restated) 2011
OPERATING REVENUES		
Premiums earned	$ 9,859,588	$ 9,392,385
Total operating revenues	9,859,588	9,392,385
OPERATING EXPENSES		
Claims expense (note 3)	4,444,107	5,972,052
Administrative fees (note 2)	1,017,716	1,041,994
Service agent fees (note 2)	878,936	899,904
Reinsurance premiums (note 2)	2,775,589	2,591,714
Second Injury Fund assessment	420,831	590,947
Office of Workers' Compensation assessment	139,362	178,769
Bad debt expense	564,739	341,051
Other	90,267	76,443
Total operating expenses	10,331,547	11,692,874
OPERATING LOSS	(471,959)	(2,300,489)
NON-OPERATING INCOME		
Investment income, net (note 4)	1,186,788	2,394,936
CHANGE IN NET POSITION	714,829	94,447
NET POSITION AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED		30,839,200
Restatement for overstatement of reserve liabilities (note 6)		3,376,000
NET POSITION - BEGINNING OF YEAR, AS RESTATED	34,309,647	34,215,200
NET POSITION - END OF YEAR	$ 35,024,476	$ 34,309,647

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, 2012 AND 2011

	2012	(as restated) 2011
Cash flows from operating activities:		
Operating loss	$ (471,959)	$ (2,300,489)
Adjustments to reconcile operating loss to		
net cash used in operations:		
Bad debt expense	564,739	341,051
Change in receivables and reinsurance receivable	(2,275,176)	1,662,586
Change in unpaid claims liability	367,000	839,000
Change in accounts payable, accrued expenses, unearned premiums and due to affiliates	1,430,948	1,607,434
Net cash (used in) provided by operating activities	(384,448)	2,149,582
Cash flows from investing activities:		
Investment income received	1,595,657	1,570,761
Purchases of investments	(25,068,492)	(17,187,970)
Proceeds from sales and maturities of investments	23,857,282	13,467,627
Net cash provided by (used in) investing activities	384,447	(2,149,582)
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

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.

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 position 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 company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

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*, effective fiscal year 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the fund's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as 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 and U.S. Government Agency and Treasury obligations.

(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 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.

(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.

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.

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

(i) Excess Reinsurance

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

(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, 2012 and 2011. The respective percentages of the respective earned normal premiums are as follows:

	2012	2011
Expenses (and current fee structure):		
Administrative fees - LMA (11.00% of ENP)	$ 1,017,716	$ 1,041,994
Service agent fees - RMI (9.5% of ENP)	$ 878,936	$ 899,904
Reinsurance - LMRFA (30.00% of ENP)	$ 2,775,589	$ 2,591,714
Reinsurance recoveries from LMRFA	$ 3,155,548	$ 1,818,660
Due to (from) affiliates:		
LMA	$ 57,716	$ 81,994
RMI	5,610	116,154
LMRFA	2,137,390	786,128
LMRMA Public Liability Fund	9,513	(4,705)
	$ 2,210,229	$ 979,571

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, 2012 and 2011, including the effects of the restatement of 2011 balances further described in Note 6:

	2012	2011
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	$ 33,336	$ 34,908
Less: reinsurance recoverables	22,400	25,195
Liability for unpaid losses at beginning of year, net	10,936	9,713
Net incurred related to:		
Current year	5,231	4,240
Prior years	(787)	1,732
Total incurred	4,444	5,972
Net paid related to:		
Current year	1,301	1,032
Prior years	2,776	3,717
Total paid	4,077	4,749
Liability for unpaid losses at end of year, gross	36,607	33,336
Less: reinsurance recoverables	25,304	22,400
Liability for unpaid losses at end of year, net	$ 11,303	$ 10,936

In addition to the unpaid claims covered by the reinsurers, there are $2,219,150 and $929,098 of paid claims which are recoverable from the reinsurer at December 31, 2012 and 2011, respectively.

During 2012 the Fund experienced overall favorable development on unpaid claims liabilities established in prior years. During 2011, the fund experienced unfavorable development on unpaid claims liabilities established in prior years. 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, 2012 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2012 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for December 31, 2012 and 2011, based on the Fund's anticipated payout patterns and a discount rate assumption of 4.5%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was $2,099,000 and $2,050,000 at December 31, 2012 and 2011, 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 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, 2012 and 2011.

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

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.

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, 2012 and 2011:

	2012		2011	
Investment Type	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S. Treasury bonds and notes	$ 2,705,260	$ 2,439,606	$ 3,181,595	$ 2,864,755
U.S. Government mortgage backed securities	12,052,666	11,625,129	10,084,508	9,643,732
U.S. Agency debt obligations	28,595,903	26,755,717	28,822,305	26,943,221
U.S. Government guaranteed obligations	-	-	207,764	199,968
Money market funds	3,278,337	3,278,337	3,538,654	3,538,654
TOTAL	$ 46,632,166	$ 44,098,789	$ 45,829,826	$ 43,190,330

4. **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 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 tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated.

The following table is provided for use in assessing the Funds exposure to credit risk as of December 31, 2012 and 2011:

Standard and Poor's Rating	Estimated Fair Value 2012	Estimated Fair Value 2011
Money market funds	$ 3,278,337	$ 3,538,654
U.S. Government securities and U.S. Treasury securities –		
Not rated	14,757,925	11,640,018
Rated AA+	28,595,904	30,651,154
Total	$ 46,632,166	$ 45,829,826

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.

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, 2012:

INVESTMENT TYPE	Estimated Fair Value	INVESTMENT MATURITIES (in years) Less than 1	1-5	5-10	Greater than 10
U.S. Treasury bonds and notes	$ 2,705,260	$ 155,309	$ 1,352,403	$ 1,197,548	$ -
U.S. Government mortgage backed	12,052,666	18,382	266,929	1,708,341	10,059,014
U.S. Agency debt obligations	28,595,903	360,858	17,087,819	11,147,226	-
Money market funds	3,278,337	3,278,337	-	-	-
TOTAL	$46,632,166	$ 3,812,886	$18,707,151	$14,053,115	$10,059,014

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Investment income for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Interest income	$ 1,330,646	$ 1,347,984
Realized losses, net	(37,739)	(6,260)
Unrealized (losses) gains arising during the year	(106,119)	1,053,212
	$ 1,186,788	$ 2,394,936

5. REINSURANCE POLICY COVERAGE

During the years ended December 31, 2012 and 2011, LMRFA provided excess reinsurance to the Fund with the following limits:

Item I:	$2,000,000 annual aggregate in excess of 80% of earned normal premium
Item II:	$2,000,000 each and every loss in excess of $175,000 each and every loss in accident years prior to 2012 and $250,000 for 2012.

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.

The following are condensed Statements of Net Position for LMRFA at December 31, 2012 and 2011, including the effects of the restatement of 2011 balances further described in Note 6.

	2012	2011
Assets	$ 44,537,935	$ 43,875,506
Liabilities	43,437,960	40,325,182
Net position	$ 1,099,975	$ 3,550,324

At December 31, 2012, the Fund included $25.3 million as recoverable from LMRFA which includes reduced liabilities for anticipated losses. 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. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

During 2012, management determined the actuarial calculation of the reserves for unpaid claims liabilities as of December 31, 2011 and prior years was based on erroneous information. This resulted in the overstatement of amounts previously reported for the unpaid claims liability and associated claims expense and understatement of the net position. The 2011 financial statements have been restated to correct this error by decreasing the unpaid claims liability balance from $13,928,000 to $10,936,000 as of December 31, 2011; increasing the 2011 claims expense balance from $5,588,052 to $5,972,052; and increasing the net position at January 1, 2011 from $30,839,200 to $34,215,200.

7. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 11, 2013 and determined that there were no events that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

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

DECEMBER 31, 2012
(Unaudited and Restated)

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 2012 and as of the end of each of the last nine years.

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
					(in thousands)					
ENP and investment income	$ 11,046	$ 11,787	$ 12,360	$ 11,166	$ 11,138	$ 10,101	$ 8,429	$ 7,160	$ 6,059	$ 5,590
Operating costs, unallocated	5,887	5,721	4,951	3,431	3,395	2,951	2,473	1,987	1,963	2,347
Estimated incurred claims and expense, end of policy year	5,787	4,786	6,286	4,429	4,824	4,712	3,577	3,898	4,032	3,589
Paid (cumulative) as of:										
End of policy year	1,301	1,096	1,540	876	909	1,172	953	964	1,051	1,076
One year later	-	2,187	3,447	1,761	2,164	2,758	2,186	2,061	2,240	2,074
Two years later	-	-	4,165	2,258	2,757	3,481	2,992	2,696	2,685	2,502
Three years later	-	-	-	2,467	3,042	3,758	3,527	3,290	3,188	2,845
Four years later	-	-	-	-	3,270	3,933	3,727	3,749	3,731	2,909
Five years later	-	-	-	-	-	3,955	3,924	3,979	3,937	3,167
Six years later	-	-	-	-	-	-	3,968	4,048	3,844	3,246
Seven years later	-	-	-	-	-	-	-	4,091	4,014	3,232
Eight years later	-	-	-	-	-	-	-	-	4,089	3,283
Nine years later	-	-	-	-	-	-	-	-	-	3,258
Re-estimated incurred claims and claims expense:										
End of policy year	5,787	4,786	6,286	4,429	4,824	4,712	3,577	3,898	4,032	3,589
One year later	-	4,450	6,148	3,329	4,938	5,334	3,967	3,746	4,266	3,781
Two years later	-	-	6,286	3,722	4,005	5,915	4,305	3,934	3,994	3,556
Three years later	-	-	-	3,329	4,470	4,564	4,961	4,487	4,130	3,690
Four years later	-	-	-	-	4,043	4,926	4,449	4,827	5,058	3,565
Five years later	-	-	-	-	-	4,608	4,598	4,526	4,707	3,811
Six years later	-	-	-	-	-	-	4,512	4,631	4,508	3,762
Seven years later	-	-	-	-	-	-	-	4,458	4,468	3,593
Eight years later	-	-	-	-	-	-	-	-	4,463	3,584
Nine years later	-	-	-	-	-	-	-	-	-	3,508
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(336)	-	(1,100)	(781)	(104)	935	560	431	(81)

See accompanying independent auditors' report.

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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 Louisiana Municipal Risk Management Agency – Workers' Compensation Fund(the Fund), which comprise the statement of financial position as of and for the year ended December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2013.

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2012 -1 that we consider to be a significant deficiency.

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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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 11, 2013

LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY
WORKERS' COMPENSATION FUND

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

FINDINGS–Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

Criteria: The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition: The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.

Cause: During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.

Effect: These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.

Recommendation: The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.

LOUISIANA MUNICIPAL ASSOCIATION UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

P&N

LOUISIANA MUNICIPAL ASSOCIATION
UNEMPLOYMENT COMPENSATION FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2012

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

We have audited the accompanying statements of net position of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 11, 2013, 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 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 11, 2013

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, 2012 and 2011. 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, 2012 by $3,925,463 compared to $3,943,023 as of December 31, 2011, which is a 0.45% decrease from the previous year.
- At December 31, 2012 and 2011, the Fund's assets totaled $4,382,894 and $4,419,478, respectively, which consisted primarily of receivables and investments.
- The Fund reported premiums earned of $336,511 and $330,413 during the years ended December 31, 2012 and 2011, respectively, and a decrease in net position of $17,560 in 2012 and an increase in net position of $14,868 in 2011.
- Investment income was $111,450 during 2012 compared to $234,963 during 2011. The decrease was attributed to changes in market values of investments.

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.

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 Statement 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, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position

	December 31, 2012	December 31, 2011
Total assets	$ 4,382,894	$ 4,419,478
Deferred outflows	-	-
Total liabilities	457,431	476,455
Deferred inflows	-	-
Net position	$ 3,925,463	$ 3,943,023

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

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,:

	2012	2011
Operating revenues	$ 336,511	$ 330,413
Operating expenses	465,521	550,508
Operating income	(129,010)	(220,095)
Non-operating income	111,450	234,963
Change in net position	$ (17,560)	$ 14,868

Operating revenues increased by approximately 1.8% from the year ended December 31, 2011 to 2012. Claims expense decreased approximately 17.3% during the year ended December 31, 2012 as a result of a decrease in unemployment benefits paid. During 2012, the overall rate of unemployment throughout Louisiana, and among covered municipalities, decreased as a result of improvements in economic activities. Additionally, during 2012, investment income decreased as compared to 2011. Interest rates in the Fund's portfolio which consists primarily of U.S. Treasury and agency securities decreased slightly. Because of the decrease in revenues and decrease in investment income, the Fund's net position for 2012 decreased $17,560.

Management anticipates unemployment trends in the State of Louisiana will continue to remain comparable in 2013. At this time, management does not anticipate an increase in premiums, due to the overall health of the Fund, but will continue to monitor the future obligations. These trends indicate the Fund will likely incur similar benefit obligations and a small operating gain similar to the year ended December 31, 2012.

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, 2012 AND 2011

	2012	2011
Assets		
Cash and cash equivalents (note 2)	$ 14,494	$ 15,602
Investments (note 2)	4,243,861	4,275,910
Accounts receivable	79,224	80,391
Prepaid expenses	13,910	13,885
Accrued interest receivable	31,405	33,690
Total Assets	$ 4,382,894	$ 4,419,478
Deferred outflows	-	-
Liabilities		
Unpaid claims liability (note 3)	$ 350,000	$ 350,000
Accrued expenses	107,431	126,455
Total Liabilities	457,431	476,455
Deferred inflows	-	-
Net position	3,925,463	3,943,023
Total liabilities, deferred inflows, and net position	$ 4,382,894	$ 4,419,478

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, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Premiums earned	$ 336,511	$ 330,413
Total operating revenues	336,511	330,413
OPERATING EXPENSES		
Claims expense (note 3)	396,432	479,157
Service agent fees	54,185	59,218
Miscellaneous	14,904	12,133
Total operating expenses	465,521	550,508
OPERATING LOSS	(129,010)	(220,095)
NON-OPERATING INCOME		
Investment income - net	111,450	234,963
CHANGE IN NET POSITION	(17,560)	14,868
NET POSITION - BEGINNING OF YEAR	3,943,023	3,928,155
NET POSITION - END OF YEAR	$ 3,925,463	$ 3,943,023

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, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Operating loss	$ (129,010)	$ (220,095)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in operating assets and liabilities:		
Accounts receivable	1,167	2,534
Prepaids	(25)	279
Accrued expenses and unpaid claims	(19,024)	39,944
Net cash used in operating activities	(146,892)	(177,338)
Cash flows from investing activities:		
Purchases of investments	(1,776,345)	(1,400,783)
Proceeds from sale or maturity of investments	1,768,861	1,415,331
Interest income received	153,268	159,821
Net cash provided by investing activities	145,784	174,369
Net change in cash	(1,108)	(2,969)
Cash, beginning of year	15,602	18,571
Cash, end of year	$ 14,494	$ 15,602

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, 2012, there were approximately 6,378 participants and 144 participating municipalities. As of December 31, 2011, there were approximately 6,612 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*, effective fiscal year 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the fund's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position.

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 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

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

(j) ***Reclassifications***

Certain items in the 2011 financial statements have been reclassified to be comparative to the 2012 presentation.

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, 2012 and 2011.

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

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:

	2012		2011	
Investment Type	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S Treasury bonds and notes	$ 217,565	$ 204,841	$ 199,976	$ 187,785
U.S. Government mortgage-backed securities	1,004,139	965,058	1,081,663	1,038,161
U.S. agency debt obligations	2,896,928	2,716,536	2,892,526	2,695,162
Money market funds	125,229	125,229	101,745	101,745
TOTAL	$ 4,243,861	$4,011,664	$ 4,275,910	$4,022,853

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 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. The following table is provided for use in assessing the Fund's exposure to credit risk at December 31:

Standard and Poor's Rating	Estimated Fair Value 2012	Estimated Fair Value 2011
Money market funds	$ 125,229	$ 101,745
U.S. Government Securities		
U.S. Treasury securities – Not rated	1,024,151	1,144,112
Rated AA+	3,094,481	3,030,053
	$ 4,243,861	$ 4,275,910

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.

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, 2012:

Investment Type	Estimated Fair Value	Less Than 1 Year	1 - 5 Years	5 - 10 Years	Over 10 Years
Money market funds	$ 125,229	$ 125,229	$ -	$ -	$ -
U.S. Treasury bonds and notes	217,565	20,012	92,738	104,815	-
U.S. Government mortgage-backed securities	1,004,139	1,129	25,348	96,992	880,670
U.S. agency debt obligations	2,896,928	118,958	1,804,686	973,284	-
	$ 4,243,861	$ 265,328	$ 1,922,772	$ 1,175,091	$ 880,670

Investment income for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Interest income	$ 125,833	$ 134,954
Net realized gain (loss)	6,500	(4,163)
Unrealized net (loss) gain arising during the year	(20,883)	104,172
	$ 111,450	$ 234,963

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, 2012 and 2011:

	2012	2011
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	$ 350	$ 350
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current year	396	479
Payments:		
Claims and claims adjustment expenses attributable to insured events of current year	274	358
Claims and claim adjustment expenses attributable to insured events of prior years	122	121
Total payments	396	479
Total unpaid claims and claims adjustment expenses liability at end of year	$ 350	$ 350

4. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 11, 2013 and determined that there were no events that require disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

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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 financial position as of and for the year ended December 31, 2012, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2013.

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 may exist that have not been identified.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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 11, 2013

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

P&N

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

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INDEPENDENT AUDITORS' REPORT

Officers and Trustees
Louisiana Municipal Reserve Fund Agency
Baton Rouge, Louisiana

We have audited the accompanying statements of net position of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) which comprise the statements of net position of as of December 31, 2012 and 2011, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performed procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 the Fund's internal control Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2012 and 2011, 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.

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Restatement of Prior Financial Statements for Correction of an Error

As discussed in Note 7 to the financial statements, the unpaid claims liability and claims expense as of December 31, 2011 and prior years were determined by management to have been misstated due to the use of erroneous information in the reserve setting process. Accordingly the 2011 financial statements have been restated for amounts reported for the unpaid claims liability, claims expense, and the net position at the beginning of 2011. Our opinion is not modified with respect to that matter.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 11, 2013, 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and the schedule of ten-year claims development on page 19 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.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 11, 2013

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED AND RESTATED)

The Management's Discussion and Analysis of the Louisiana Municipal Reserve Fund Agency's (the Fund) financial performance presents a narrative overview and analysis of the Fund's financial activities for the years ended December 31, 2012 and 2011. 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

- As more fully described in Note 7, the 2011 financial statements have been restated to correct overstatement of the unpaid claims liability of approximately $3.1 million. The financial highlights reflect comparison to adjusted 2011 amounts.
- The assets of the Fund exceeded its liabilities at December 31, 2012 by $1,099,975 compared to $3,550,324 as of December 31, 2011, which is a 69% decrease from the previous year.
- At December 31, 2012, the Fund's assets totaled $44,537,935, which consisted primarily of investment securities primarily composed of cash, direct and indirect investments in U.S. Government debt obligations, and receivables At December 31, 2011, the Fund's assets totaled $43,875,506 and were comprised of similar types of assets.
- The Fund reported gross earned premiums of $5,801,347 and $5,067,717 during the years ended December 31, 2012 and 2011, respectively. This increase during 2011 is a result of increases in premium rates charged in the base funds as described in note 2.
- The Fund recognized investment income of $1,147,312 and $2,522,419 during the years ended December 31, 2012 and 2011, respectively. The decrease in investment income is attributed less favorable changes in market values of the Fund's investment portfolios as compared to the prior years.
- The Fund had a decrease in net position of $2,450,349 during the year ended December 31, 2012 and a decrease in net position of $3,459,343 during the year ended December 31, 2011. The smaller decrease in net position is a result of less adverse development on claims incurred in previous years.

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 provide 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 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.

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 Statement 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, healthcare costs, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position at December 31:

	2012	(as restated) 2011
Total assets	$ 44,537,935	$ 43,875,506
Deferred outflows	-	-
Total liabilities	43,437,960	40,325,182
Deferred inflows	-	-
Net position	$ 1,099,975	$ 3,550,324

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 1 5% while liabilities increased 7.7% due to increase in claims liabilities resulting from both unfavorable development of claims associated with prior years as well as higher claims estimates incurred in 2012. Net position decreased approximately 69% from the prior year resulting from incurred claims.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED AND RESTATED)

Financial Analysis of the Fund (continued)

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

	2012	(as restated) 2011
Operating revenues	$ 5,801,347	$ 5,067,717
Operating expenses	9,399,008	11,049,479
Operating loss	(3,597,661)	(5,981,762)
Non-operating income	1,147,312	2,522,419
Change in net position	$ (2,450,349)	$ (3,459,343)

During the year ended December 31, 2012, the Fund reported premium earned of $5,801,347 and investment income of $1,147,312. Premiums earned increased due to increases in rates charged in the corresponding base funds in order to properly reflect the experience of the funds. Investment income decreased due to less favorable market performance in the Fund's investment as well as continued growth of the portfolio. The Fund reported total expenses of $9,399,008, which consisted primarily of claims expense while total expenses decreased approximately $1.7 million due primarily to less unfavorable development in the three base insurance funds than the prior year. The Fund experienced a substantial operating loss of approximately $3.6 million and a decrease in net position of approximately $2.5 million for the current year. See the Statements of Revenues, Expenses and Changes in Net Position on page 7 of this report.

Future Changes to the Fund

See note 6 for additional description of the risks and uncertainties regarding the Fund's financial condition. During 2013, management intends to continue to improve the financial viability of the Fund by increasing related premium rates in order to more align experience of the funds with the rates charged as well as increasing the limits of losses returned by the base funds. The Fund has also discontinued insuring the LMRMA Accident and Health Fund effective January 1, 2013.

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 Reserve Fund Agency, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

STATEMENTS OF NET POSITION
DECEMBER 31, 2012 AND 2011

	2012	(as restated) 2011
Cash and cash equivalents (note 4)	$ 862,039	$ 957,063
Investments (note 4)	40,833,206	41,505,165
Accrued interest receivable	306,492	338,808
Other receivables	5,296	5,296
Due from affiliates (note 2)	2,528,293	1,066,565
Reinsurance receivable	2,609	2,609
Total assets	$ 44,537,935	$ 43,875,506
Deferred outflows	-	-
Liabilities:		
Claims payable (note 2)	$ 276,813	$ 150,167
Unpaid claims liability (note 3)	43,151,000	39,849,000
Accrued expenses	10,147	326,015
Total liabilities	43,437,960	40,325,182
Deferred inflows	-	-
Net position	1,099,975	3,550,324
Total liabilities, deferred inflows, and net position	$ 44,537,935	$ 43,875,506

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

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	(as restated) 2011
OPERATING REVENUES		
Premiums earned (note 2)	$ 5,801,347	$ 5,067,717
Total operating revenues	5,801,347	5,067,717
OPERATING EXPENSES		
Claims expense (note 3)	9,237,200	10,922,387
Reinsurance premium	94,621	61,996
Professional fees	67,187	65,096
Total operating expenses	9,399,008	11,049,479
OPERATING LOSS	(3,597,661)	(5,981,762)
NON-OPERATING INCOME		
Investment income, net (note 4)	1,147,312	2,522,419
CHANGE IN NET POSITION	**(2,450,349)**	**(3,459,343)**
NET POSITION AT BEGINNING OF YEAR, AS PREVIOUSLY REPORTED		5,240,667
Restatement for overstatement of reserve liabilities (note 7)		1,769,000
NET POSITION - BEGINNING OF YEAR, AS RESTATED	3,550,324	7,009,667
NET POSITION - END OF YEAR	$ 1,099,975	$ 3,550,324

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

LOUISIANA MUNICIPAL
RESERVE FUND AGENCY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	(as restated) 2011
Cash flows from operating activities:		
Operating loss	$ (3,597,661)	$ (5,981,762)
Adjustments to reconcile operating loss to net cash used in operations:		
Change in due from affiliates, reinsurance receivable, other receivables	(1,429,412)	1,197,754
Change in unpaid claims liability	3,428,646	1,163,773
Change in accrued expenses	(315,868)	(14,127)
Net cash used in operating activities	(1,914,295)	(3,634,362)
Cash flows from investing activities:		
Purchases of investments	(14,827,665)	(5,627,506)
Proceeds from sales or maturities of investments	15,105,401	5,891,832
Investment income received	1,541,535	1,708,818
Net cash provided by investing activities	1,819,271	1,973,144
Net change in cash	(95,024)	(1,661,218)
Cash, beginning of year	957,063	2,618,281
Cash, end of year	$ 862,039	$ 957,063

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

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Background and Financial Statement Presentation

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

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 program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate setting policies have been established by the Board of LMRMA after actuarial consultation. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

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

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

The various LMRMA Funds, LMA, RMI, and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various 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 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 company having a business cycle greater than one year, the statements of net position are not presented in a classified format.

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*, effective for the year ended December 31, 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the Fund's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period. Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. As of December 31, 2012, the Fund has no deferred inflows or outflows.

(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 estimated fair value are included in investment income. Investments include money market accounts, repurchase agreements, and U.S. Government Agency, treasury obligations and corporate obligations.

(e) Premium Income

Most of the premium income of LMRFA collected in the current year is based on a percentage of LMRMA workers' compensation, public liability, and accident and health funds' premiums (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. Acquisition costs associated with new and renewal contracts are expensed when incurred.

(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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Unpaid Claims Liability

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as 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. 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 expenses are presented at present value in the financial statements.

(h) Statements of Cash Flows

For the purpose of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).

(i) Income Taxes

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

(j) 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.

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

2. RELATED PARTY TRANSACTIONS

LMA, RMI, LMRMA, 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). The respective percentages of the respective earned normal premiums and earned standard premiums are as follows:

	2012		2011	
	Fee Basis	Amount	Fee Basis	Amount
Premium income:				
LMRMA:				
Public Liability	21.75% ENP	$ 2,046,139	16.75% ENP	$ 1,572,964
Workers' Compensation	30.00% ENP	2,775,589	30.00% ENP	2,591,714
Accident and Health	$40.58 per participant	979,619	$37.88 per participant	903,039
		$ 5,801,347		$ 5,067,717
Due (to) from affiliates:				
LMRMA:				
Public Liability		$ 390,903		$ (35,236)
Workers' Compensation		2,137,390		1,101,801
		$ 2,528,293		$ 1,066,565

The Board of Trustees has authorized that the Fund may lend up to $500,000 to the LMRMA Accident and Health Fund on an unsecured and non-interest bearing basis. There were no advances made during 2012 or 2011 under this agreement.

Claims payable represents amounts payable to the LMRMA Accident and Health Fund for claims unpaid at December 31, 2012 and 2011 of $276,813 and $150,167, respectively, which were in excess of the LMRMA Accident and Health Fund's retention level.

As further described in Note 8, effective January 1, 2013 the LMRMA Accident and Health implemented changes to become a fully insured program through a third party. These changes also discontinue the Fund insuring losses for the LMRMA Accident and Health program

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

NOTES TO FINANCIAL STATEMENTS

3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2012 and 2011 including the effects of the restatement of 2011 balances further described in Note 7:

	2012	2011
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year, gross	$ 39,849	$ 40,156
Less: Reinsurance recoverables	-	-
Liability for unpaid losses at beginning of year, net	39,849	40,156
Net incurred related to:		
Current year	7,533	7,494
Prior years	1,704	3,428
Total incurred	9,237	10,922
Net paid related to:		
Current year	1,087	786
Prior years	4,848	10,443
Total paid	5,935	11,229
Liability for unpaid losses at end of year, gross	43,151	39,849
Less: Reinsurance recoverables	-	-
Liability for unpaid losses at end of year, net	$ 43,151	$ 39,849

The above year end reserve liabilities were comprised of the following coverage types:

	2012	(as restated) 2011
Workers' compensation	$ 25,304	$ 22,400
Public liability	17,847	17,449
	$ 43,151	$ 39,849

During 2012 and 2011, the Fund experienced overall unfavorable development on unpaid claims liabilities established in prior years due largely to the impact of certain adverse development as it relates to workers' compensation and public liability coverage. These significant unfavorable developments are due to certain adverse judicial proceedings as well as large losses that were reported during 2012 and 2011 but related to events occurring in prior years. 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, 2012 are adequate to cover claims for losses that have occurred. Management can give no assurance that the ultimate claims incurred through December 31, 2012 will not vary from the above estimates, and such differences could be significant.

The Fund's claims payable have been discounted for December 31, 2012 and 2011 based on the Fund's anticipated payout patterns and a discount rate assumption of 4.5% which management expects to approximate the interest earnings over the payout period. Management believes these assumptions reflect the payout patterns and investment earning rates that should be used for discounting reserves. The effect of the reserve discounts was $13,098,000 and $13,017,000 at December 31, 2012 and 2011, respectively.

4. DEPOSITS AND INVESTMENTS

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this Fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of $500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2012 and 2011.

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

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.

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, 2012 and 2011:

	2012		2011	
Investment Type	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
U.S. Government mortgage backed securities	$ 12,085,360	$ 11,591,965	$12,351,446	$ 11,747,843
U.S. Government agency debt obligations	26,021,748	23,859,204	26,650,633	24,330,143
U.S. Treasury bonds and notes	1,955,874	1,703,693	1,855,762	1,670,141
Money market funds	770,224	770,224	647,324	647,324
TOTAL	$ 40,833,206	$ 37,925,086	$41,505,165	$ 38,395,451

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.

4. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

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 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 tool with which to assess credit risk on debt obligations. U.S. Government debt securities are not required to be rated. The following table is provided for use in assessing the Fund's exposure to credit risk as of December 31, 2012 and 2011.

Standard and Poor's Rating	Estimated Fair Value 2012	Estimated Fair Value 2011
Money market funds	$ 770,224	$ 647,324
U.S. Government securities and U.S. Treasury securities		
Not rated	14,041,234	12,842,368
Rated AA+	26,021,748	28,015,473
Total	$ 40,833,206	$ 41,505,165

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.

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. This 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, 2012:

		INVESTMENT MATURITIES (in years)			
INVESTMENT TYPE	Estimated Fair Value	Less than 1	1-5	6-10	Greater than 10
U.S. Government mortgage backed securities	$ 12,085,360	$ 7,537	$ 512,309	$ 2,542,236	$ 9,023,278
U.S. Government agency debt obligations	26,021,748	2,024,403	15,451,566	8,545,779	-
U.S Treasury bonds and notes	1,955,874	70,082	199,956	1,531,321	154,515
Money market funds	770,224	770,224	-	-	-
TOTAL	$ 40,833,206	$ 2,872,246	$ 16,163,831	$12,619,336	$ 9,177,793

Mortgage-backed securities are included in the above table based upon their contractual terms. These types of securities typically experience repayments over a shorter term.

Net investment income for the years ended December 31, 2012 and 2011 consists of the following:

	2012	2011
Interest income	$ 1,427,218	$ 1,597,475
Net realized losses – net	(78,309)	(21,244)
Unrealized gains (losses) arising during the year	(201,597)	946,188
	$ 1,147,312	$ 2,522,419

5. REINSURANCE POLICY COVERAGE

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

Ceded

LMRFA obtained commercial reinsurance to cover a portion of the accident and health risks assumed during 2012 and 2011. LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For all subsequent years, the LMRFA did not reinsure workers' compensation medical losses or other insured coverages.

Assumed:

For the years ended December 31, 2012 and 2011, LMRFA provided excess reinsurance to LMRMA, Workers' Compensation, Public Liability and Accident and Health Funds with the following limits:

Workers' Compensation Fund

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

Item II: $2,000,000 each and every loss in excess of $175,000 each and every loss in accident years prior to 2012 and $250,000 for 2012.

Public Liability Fund

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 each and every loss in accident years prior to 2012 and $150,000 for 2012.

Accident and Health Fund

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: $900,000 specific losses in excess of $100,000 each and every loss.

6. RISKS AND UNCERTAINTIES

As shown in the accompanying financial statements, at December 31, 2012, the Fund reported a net position of $1,099,975 and total liabilities of $43,437,960 which comprise primarily of loss reserve liabilities. The Fund has experienced substantial operating losses in recent years related to large losses incurred arising in those years as well as continued adverse development of insured losses for the LMRMA Workers' Compensation Fund and LMRMA Public Liability Fund (base funds).

The Fund has implemented premium rate increases with the LMRMA Workers' Compensation Fund in 2011 and a rate increase for the LMRMA Public Liability Fund in 2012 and intends to continue to increase rates as determined by management. Additionally, as indicated in note 5, management has increased the insured limits assumed from the LMRMA base funds in 2012 and intends for this rate to increase going forward thereby reducing the insurance coverage assumed by the Fund. The Fund has also discontinued providing coverage for the LMRMA Accident and Health Fund effective January 1, 2013 as also described in note 5.

Management expects these changes will be sufficient for the Fund to achieve a sustainable level of cash flows and profitability. However, no assurances can be provided that these business plans are attainable, or if attained the Fund can achieve a level of profitability and cash flow sufficient to remain a financially viable entity. The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Fund as a going concern. If the Fund is unable to meet its obligations as they become due and a managed shut down is not successful, the base funds and participating members would become responsible for their respective outstanding claims obligations.

7. RESTATEMENT OF PRIOR FINANCIAL STATEMENTS

During 2012, management determined the actuarial calculation of the reserves for unpaid claims liabilities as of December 31, 2011 and prior years was based on erroneous information. This resulted in the overstatement of amounts previously reported for the unpaid claims liability and associated claims expense and understatement of the net position. The 2011 financial statements have been restated to correct this error by decreasing the unpaid claims liability balance from $42,936,000 to $39,849,000 as of December 31, 2011; decreasing the 2011 claims expense balance from $12,240,387 to $10,922,387; and increasing the net position at January 1, 2011 from $5,240,667 to $7,009,667.

8. SUBSEQUENT EVENTS

Management has evaluated events through the date that the financial statements were available to be issued, June 11, 2013 and determined that the following disclosure is necessary. Effective January 1, 2013, the LMRMA Accident and Health Fund (A&H Fund) converted from a self-funded program plan to an LMA sponsored full-insured program through Blue Cross of Louisiana. As a part of the A&H Fund changes, the Fund will no longer insure accident and health risks for the A&H Fund subsequent to December 31, 2012. No other subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTAL INFORMATION

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

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

DECEMBER 31, 2012

(Unaudited and as restated)

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and undiscounted claims expense incurred by the Fund as of the end of 2012 and as of the end of each of the last nine years.

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
					(in thousands)					
ENP and investment income	$ 6,948	$ 7,590	$ 6,672	$ 5,220	$ 6,999	$ 6,090	$ 4,516	$ 3,658	$ 4,052	$ 4,327
Operating costs, unallocated	162	127	127	122	127	124	120	124	118	135
Estimated incurred claims and expense, end of policy year	9,594	9,529	8,960	7,560	9,125	5,650	4,615	4,009	5,743	3,343
Paid (cumulative) as of										
End of policy year	1,087	797	787	942	1,232	562	712	371	209	239
One year later		1,733	787	942	1,232	1,072	1,115	371	209	428
Two years later			2,661	1,987	1,370	2,036	1,310	2,378	337	702
Three years later				2,040	2,600	3,268	2,234	2,950	1,150	1,479
Four years later				-	4,095	3,304	3,304	3,063	2,355	1,594
Five years later				-	-	4,092	4,105	3,636	2,671	3,029
Six years later				-	-	-	3,605	4,046	3,062	3,484
Seven years later				-	-	-	-	3,880	3,164	3,954
Eight years later				-	-	-	-	-	3,393	4,229
Nine years later				-	-	-	-	-	-	4,059
Re-estimated incurred claims and claims expense:										
End of policy year	9,594	9,529	9,211	7,560	9,125	5,650	4,615	4,009	5,743	3,343
One year later		10,038	7,544	6,279	10,254	8,712	4,491	4,564	4,308	3,215
Two years later			9,554	6,372	8,302	10,074	5,895	5,515	3,824	3,418
Three years later				5,807	7,514	6,989	6,989	6,211	4,059	4,237
Four years later				-	8,428	9,761	7,387	6,437	6,934	4,160
Five years later				-	-	8,639	7,440	6,558	6,576	4,992
Six years later				-	-	-	6,870	6,788	6,576	5,893
Seven years later				-	-	-	-	5,857	6,173	5,690
Eight years later				-	-	-	-	-	6,145	6,159
Nine years later				-	-	-	-	-	-	5,360
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	509	343	(1,753)	(697)	2,989	2,255	1,848	402	2,017

See accompanying independent auditors' report.

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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 Reserve Fund Agency
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 Reserve Fund Agency (the Fund), which comprise the statement of net position as of and for the year ended December 31, 2012, 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 11, 2013.

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2012 -1 that we consider to be a significant deficiency.

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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 determination of financial statement amounts However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Finding

The Fund's response to the finding identified in our audit is described in the accompany schedule of findings. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 11, 2013

LOUISIANA MUNICIPAL RESERVE FUND AGENCY

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

FINDINGS–Financial Statement Audit

2012-1 Internal Control Over Financial Reporting

Criteria: The definition of internal control over financial reporting includes ensuring that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertion embodied in the annual financial statements, which for the Fund, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP).

Condition: The Fund retains an actuarial specialist to assist in the calculation of the unpaid claims liability for each financial reporting period. The development of estimates for unpaid claims reserves relies on accurate and consistent data for claims payment patterns, case reserve setting practices, claims reporting, and other statistical data provided by management. Changes in the underlying data sources and claims handling practices over time must be communicated and considered in the actuarial trending and analysis in estimating future claims settlement.

Cause: During 2012 management determined that certain information used to prepare the actuarial valuation of the unpaid claims reserves was used erroneously and resulted in inaccuracies in the computation of the unpaid claims reserve valuations for the year ended December 31, 2011 and some prior years. Certain components of the information communicated to the actuarial specialist were inconsistent with the Fund's actual underlying claims data and some information was misunderstood in communications with the specialist.

Effect: These conditions resulted in the estimates for unpaid claims reserve liabilities being based on inaccurate information and the misstatement of the year end actuarial valuation of the unpaid claims reserve liabilities. These errors required the restatement of the Fund's 2011 financial statements. These conditions were considered to be a significant deficiency in the Fund's internal control over financial reporting.

Recommendation: The Fund's management and actuarial specialist have implemented additional procedures to ensure the accuracy and consistent understanding of the Fund's claims information being exchanged and improvements in the communication between these parties. We recommend that the Fund continue to monitor these additional procedures and make additional improvements as necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability.

View of Responsible Official and Planned Corrective Action

Management agrees with the finding and management has implemented procedures necessary to enhance the accuracy and understanding of the information utilized to estimate the unpaid claims liability. During 2012, management began providing automated data to the actuary and implemented a mid-year review by the actuary. Management will continue to implement these added procedures in future periods.