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**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**

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

Release Date 7/9/03



**Postlethwaite & Netterville**

A Professional Accounting Corporation

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**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

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**Postlethwaite & Netterville**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Association and Subsidiaries

We have audited the accompanying consolidated statements of financial position of Louisiana Municipal Association and Subsidiaries (LMA) as of December 31, 2002 and 2001, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Louisiana Municipal Association and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted by the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included on pages 12 through 15 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2002 AND 2001**

	<b><u>ASSETS</u></b>	
	<b><u>2002</u></b>	<b><u>2001</u></b>
Cash	\$ 1,477,548	\$ 1,031,111
Investments (note 2)	1,450,971	1,339,314
Accounts receivable	177,152	170,501
Due from affiliates (note 3)	1,269,973	679,706
Prepaid expenses	47,516	43,758
Land, building and equipment, net (note 4)	4,604,473	4,710,281
Other assets (note 6)	56,383	612,438
	<hr/>	<hr/>
Total assets	<b><u>\$ 9,084,016</u></b>	<b><u>\$ 8,587,109</u></b>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Unearned dues and fees	\$ 157,626	\$ 127,098
Accounts payable and accrued expenses	575,449	489,942
Note payable (note 3)	-	396,890
Claims processing payable	250,000	250,000
	<hr/>	<hr/>
Total liabilities	983,075	1,263,930
Net assets - unrestricted	<hr/>	<hr/>
	8,100,941	7,323,179
Total liabilities and net assets	<b><u>\$ 9,084,016</u></b>	<b><u>\$ 8,587,109</u></b>

See accompanying notes to consolidated financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Changes in unrestricted net assets:		
<b>Revenues and other support:</b>		
Administrative fees and commissions (note 3)	\$ 4,372,114	\$ 3,802,638
Membership dues	283,454	274,040
Legal services (note 3)	358,786	291,485
Rent	117,406	97,418
Investment income (note 2)	60,516	105,385
Other income	335,606	302,829
	<u>5,527,882</u>	<u>4,873,795</u>
<b>Expenses:</b>		
General and administrative	4,750,120	4,358,682
Remediation of building (note 6)	-	415,871
	<u>4,750,120</u>	<u>4,774,553</u>
<b>Increase in unrestricted net assets</b>	777,762	99,242
Net assets at beginning of year	<u>7,323,179</u>	<u>7,223,937</u>
Net assets at end of year	<u>\$ 8,100,941</u>	<u>\$ 7,323,179</u>

See accompanying notes to consolidated financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Change in unrestricted net assets	\$ 777,762	\$ 99,242
Adjustments to reconcile the change in unrestricted net assets to net cash provided by operations:		
Depreciation and amortization	190,971	169,235
Change in receivables, prepaids, due from affiliates and other assets	(15,378)	52,144
Changes in accounts payable, accrued expenses and unearned dues	<u>116,035</u>	<u>(53,994)</u>
Net cash provided by operating activities	<u>1,069,390</u>	<u>266,627</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(84,607)	(71,420)
Purchase of investments	(1,725,111)	(1,880,155)
Proceeds from maturities of investments	<u>1,583,655</u>	<u>1,748,845</u>
Net cash used in investing activities	<u>(226,063)</u>	<u>(202,730)</u>
Cash flows from financing activities:		
Payments on note payable	<u>(396,890)</u>	<u>(212,147)</u>
Net change in cash	446,437	(148,250)
Cash, beginning of year	<u>1,031,111</u>	<u>1,179,361</u>
Cash, end of year	<u>\$ 1,477,548</u>	<u>\$ 1,031,111</u>

See accompanying notes to consolidated financial statements.



## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SIGNIFICANT ACCOUNTING POLICIES

##### *(a) Principles and Consolidation*

The accompanying consolidated financial statements include Louisiana Municipal Association (LMA) and its wholly-owned subsidiaries Risk Management, Inc. (RMI) and Louisiana Municipal Advisory and Technical Services Bureau, Corp. (LaMats). All intercompany transactions and balances have been eliminated.

##### *(b) Organization Background*

LMA is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana.

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

RMIA, which is a wholly-owned subsidiary of RMI, was incorporated in 1992 to act as an agent for purchasing insurance on behalf of member municipalities and others.

LaMats was incorporated in 1998 for the purpose of providing various advisory and technical services primarily to the membership of the LMA.

##### *(c) Financial Statement Presentation*

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

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

**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

***(d) Investments***

Investments, consisting of U.S. Government and Agency issues, are recorded at estimated fair value. Unrealized gains and losses on investments in debt securities are recorded in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or law. Investment income is recorded as increases on unrestricted net assets unless the use is restricted by donor.

***(e) Depreciation and Amortization***

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

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

***(f) Dues Income - LMA***

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

***(g) Administrative Fees and Commissions***

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

***(h) Consolidated Statements of Cash Flows***

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

***(i) Use of Estimates***

Management 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.

***(j) Claims Processing Payable***

As service agent for the LMRMA, RMI has responsibility for administration of the claims related to the 2002 and prior fund years. This liability has been estimated based on the costs necessary to fulfill this obligation to continue as service agent for the years for which revenue has been received and recognized.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**2. INVESTMENTS**

The amortized cost of investments are \$1,438,535 and \$1,324,835 at December 31, 2002 and 2001, respectively. At December 31, 2002, all securities owned have contractual maturity terms within the next two years. The estimated fair value of investments by security type at December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
U.S. Government Agency obligations	\$ 561,548	\$ 822,751
U.S. Treasury securities	<u>889,423</u>	<u>516,563</u>
	<u>\$ 1,450,971</u>	<u>\$ 1,339,314</u>

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Interest income	\$ 62,558	\$ 90,575
Realized losses – net	-	(1,269)
Unrealized (losses) gains arising during year	<u>( 2,042)</u>	<u>16,079</u>
	<u>\$ 60,516</u>	<u>\$ 105,385</u>

**3. RELATED PARTY TRANSACTIONS**

**(a) *Fees and Services***

LMA provides services related to the LMRMA's self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) for 2002 and 2001 or on a per covered participant (PCP) basis. The following schedule recaps administrative fees earned by LMA from LMRMA for the years ended December 31, 2002 and 2001 and balances due from LMRMA.

	Administrative fee <u>LMA</u>	Due from <u>LMRMA</u>
2002:		
Fees earned from LMRMA:		
Workers' Compensation	\$ 472,958	\$ 172,958
Public Liability	727,485	487,486
Accident and Health	<u>17,173</u>	<u>1,454</u>
	<u>\$ 1,217,616</u>	<u>\$ 661,898</u>



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. RELATED PARTY TRANSACTIONS (continued)**

	Administrative fee <u>LMA</u>	Due from <u>LMRMA</u>
2001:		
Fees earned from LMRMA:		
Workers' Compensation	\$ 367,229	\$ 67,229
Public Liability	638,244	398,244
Accident and Health	<u>17,060</u>	<u>1,425</u>
	<u>\$ 1,022,533</u>	<u>\$ 466,898</u>

From time-to-time the LMA Board has returned a portion of LMA's administrative fees to LMRMA. During 2002 and 2001, no administrative fees were returned by LMA.

LMA provides legal assistance for the various member municipalities and the LMRMA on a fee for service basis.

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

	<u>2002</u>	<u>2001</u>
Service fees earned	\$ <u>2,145,962</u>	\$ <u>1,791,480</u>
Percent of RMI's total service fees and commissions	<u>76.2%</u>	<u>73.1%</u>
Balance due from LMRMA	\$ <u>391,565</u>	\$ <u>36,518</u>

In addition, RMI receives a five percent commission on reinsurance purchased by LMRFA.

LMRMA provides accident and health and workers' compensation insurance to employees of LMA and RMI. The total consolidated insurance expense (included in employee benefits) was \$140,609 and \$142,301 for the years ended December 31, 2002 and 2001, respectively.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

3. **RELATED PARTY TRANSACTIONS** (continued)

(b) *Note Payable*

LMA had a variable rate note agreement with the LMRMA Public Liability Fund. The note bears an interest rate equal to the average investment return yielded by the Fund on its investments at December 31, 2001. LMA made monthly payments of \$20,425 due the first day of each month based on a 360 month amortization. Collateral for this note was a building owned by LMA. The Fund earned interest of \$16,062 and \$32,948 in respect to the note for the years ended December 31, 2002 and 2001, respectively. During 2002, LMA repaid the remaining balance on the note.

4. **LAND, BUILDING AND EQUIPMENT**

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

	<u>2002</u>	<u>2001</u>
Land	\$ 491,000	\$ 491,000
Buildings and leasehold improvements (see Note 5)	5,478,613	5,467,143
Furniture and equipment	1,112,245	1,138,816
Vehicles	<u>121,399</u>	<u>102,215</u>
	7,203,257	7,199,174
Accumulated depreciation	<u>(2,598,784)</u>	<u>(2,488,893)</u>
	<u>\$ 4,604,473</u>	<u>\$ 4,710,281</u>

5. **INCOME TAXES**

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

RMI is a taxable entity which had no tax due in 2002 or 2001. LaMats is a taxable entity which paid \$20,000 in federal income taxes during 2002. No federal taxes were remitted or due in 2001 for LaMats. Timing differences between book and taxable income relate primarily to the liability for estimated future claims processing costs. A deferred tax asset has been recorded at December 31, 2002 and 2001.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. OTHER ASSETS**

Other assets consist of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Deferred tax benefit	\$ 49,122	\$ 49,122
Interest receivable	7,261	13,316
Construction in progress-building repairs and litigation recoverable	-	550,000
	<u>\$ 56,383</u>	<u>\$ 612,438</u>

The original construction of LMA's building included design and construction defects which were repaired during 2000 and 2001. The building defects were the subject of litigation and arbitration against parties which LMA's management believed to be at fault. During 2002 and 2001, settlements were reached with the parties to the litigation including the successful recovery of a substantial amount of the remedial and related costs.

Included in other assets at December 31, 2001 was \$550,000 of settlement proceeds recoverable. LMA also transferred to building costs and capitalized \$626,097 of costs incurred which attributed to betterments, improvements, and extension of the original life of the building. During the year ended December 31, 2001, LMA recognized a charge of \$415,871 related to the building litigation matter which was not recoverable in the settlements and was not capitalized in the cost of the building.

**7. MULTI-EMPLOYER PENSION PLAN**

All of LMA and RMI's (including related subsidiary's) full-time employees participate in Plan A of the Municipal Employee's Retirement System of Louisiana (the Plan), a multiple-employer municipal employee retirement system. The payroll for LMA's employees covered by the Plan for the years ended December 31, 2002 and 2001 was \$829,319 and \$755,979, respectively. Payroll for RMI's employees covered by the Plan for the years ended December 31, 2002 and 2001 was \$841,558 and \$810,780, respectively.

All employees of LMA and RMI are required to participate in the Plan if they are under the age of 60, are full-time employees, and are not participating in another publicly funded retirement system. Any employee can retire provided he or she meets one of the following criteria: any age with 25 or more years of credited service or age 60 with a minimum of 10 years of credited service. Retirees are entitled to a retirement benefit, payable monthly for life, equal to 3 percent of the member's final compensation multiplied by his years of creditable service, not to exceed 100 percent of the member's final salary. Employees become fully vested on reaching 10 years of service. The Plan also provides survivor's and disability benefits. Covered employees are required to contribute a percentage of their salary to the Plan (the rate is determined by the Plan and can fluctuate). Of the total contribution required to be contributed for a covered employee, the employees contribute 5%, while LMA and RMI contribute the remainder. LMA and RMI's contribution percentage increased from 10.5% to 11.25% on July 1, 2001. Additionally, LMA and RMI's contribution percentage increased to 12.25% on July 1, 2002. The contribution requirement for LMA for the years ended December 31, 2002 and 2001 was \$138,988 and \$120,115, which consisted of \$97,522 and \$82,316 from LMA and \$41,466 and \$37,799 from employees, respectively. The contribution requirement for RMI for the years ended December 31, 2002 and 2001 was \$137,355 and \$124,781, which consisted of \$97,198 and \$86,377 from RMI, and \$40,157 and \$38,404 from employees, respectively.



**LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

8. **LEASE**

RMI entered into a five-year non-cancelable lease with LMA for the space it conducts its operations in for \$20,425 per month. The lease has a five-year renewal option exercisable by RMI if notice is given to LMA within thirty days of expiration. Additionally, the current lease expires on December 31, 2002. During the years ended December 31, 2002 and 2001, RMI paid LMA rent as shown below. In addition, RMI has agreed to act as the leasing agent for LMA's building. As part of this agreement, RMI is entitled to a fee equal to the revenues from rent collected from tenants of the building (excluding RMI's rent paid to LMA) less appropriate expenses such as, but not limited to, utilities, repairs and maintenance, and certain insurance coverages. Below is a recap of transactions relating to this rent agreement between LMA and RMI for the years ended December 31, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
RMI's rent paid to LMA (eliminated in consolidation)	\$ 248,065	\$ 248,355
Rent received by RMI	( 116,736)	( 100,678)
Building expenses incurred by RMI	<u>100,100</u>	<u>104,340</u>
Net rental expense	<u>\$ 231,249</u>	<u>\$ 252,017</u>

9. **DEFERRED COMPENSATION PLAN**

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

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

10. **CONTINGENCIES**

LMA and its subsidiaries become involved in litigation from time-to-time. At December 31, 2002, LMA and a subsidiary were involved in litigation which management believes will not have a material adverse effect upon LMA.



**SUPPLEMENTAL INFORMATION**



## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF FINANCIAL POSITION  
DECEMBER 31, 2002 AND 2001

Assets	2002				2001					
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau Corp.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau Corp.	Eliminations	Consolidated
Cash	\$ 1,058,259	\$ 194,294	\$ 224,995	\$ -	\$ 1,477,548	\$ 603,185	\$ 301,922	\$ 126,004	\$ -	\$ 1,031,111
Investments	1,450,971	-	-	-	1,450,971	1,339,314	-	-	-	1,339,314
Accounts receivable	48,885	128,117	150	-	177,152	31,017	136,763	2,721	-	170,501
Due from affiliates	913,352	391,565	-	(34,944)	1,269,973	678,132	36,518	-	(34,944)	679,706
Prepaid expenses	24,637	22,879	-	-	47,516	27,201	16,557	-	-	43,758
Investment - subsidiary	294,142	-	-	(294,142)	-	34,623	-	-	(34,623)	-
Land, building and equipment (cost), net	4,533,353	54,646	16,474	-	4,604,473	4,641,086	59,261	9,934	-	4,710,281
Other assets	7,261	49,122	-	-	56,383	563,316	49,122	-	-	612,438
<b>Total assets</b>	<b>8,330,860</b>	<b>840,623</b>	<b>241,619</b>	<b>(329,086)</b>	<b>9,084,016</b>	<b>7,917,874</b>	<b>600,143</b>	<b>138,659</b>	<b>(69,567)</b>	<b>8,587,109</b>
<b>Liabilities and Net Assets</b>										
Liabilities:										
Unearned dues and fees	157,626	-	-	-	157,626	127,098	-	-	-	127,098
Accounts payable and accrued expenses	72,293	422,072	81,084	-	575,449	70,707	378,070	41,165	-	489,942
Notes payable	-	-	-	-	-	396,890	-	-	-	396,890
Due to affiliates	-	-	34,944	(34,944)	-	-	-	34,944	(34,944)	-
Claims processing payable	-	250,000	-	-	250,000	-	250,000	-	-	250,000
	229,919	672,072	116,028	(34,944)	983,075	594,695	628,070	76,109	(34,944)	1,263,930
Net assets, unrestricted	8,100,941	168,551	125,591	(294,142)	8,100,941	7,323,179	(27,927)	62,550	(34,623)	7,323,179
<b>Total liabilities and net assets</b>	<b>\$ 8,330,860</b>	<b>\$ 840,623</b>	<b>\$ 241,619</b>	<b>\$ (329,086)</b>	<b>\$ 9,084,016</b>	<b>\$ 7,917,874</b>	<b>\$ 600,143</b>	<b>\$ 138,659</b>	<b>\$ (69,567)</b>	<b>\$ 8,587,109</b>

See accompanying independent auditors' report.



## LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002				2001					
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory Technical Services Bureau, Corp.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory Technical Services Bureau, Corp.	Eliminations	Consolidated
Cash flows provided by operating activities:										
Increase (decrease) in unrestricted net assets	\$ 777,762	\$ 196,478	\$ 63,041	\$ (259,519)	\$ 777,762	\$ 99,242	\$ (118,621)	\$ 52,332	\$ 66,289	\$ 99,242
Adjustments to reconcile increase in unrestricted net assets to net cash provided by (used in) operations:										
Depreciation and amortization	183,318	5,171	2,482	-	190,971	160,595	8,640	-	-	169,235
Equity in subsidiary	(259,519)	-	-	259,519	-	66,289	-	-	(66,289)	-
Change in receivables, prepaids, due to/from affiliates and other assets	335,330	(353,279)	2,571	-	(15,378)	(20,196)	75,211	(2,871)	-	52,144
Changes in accounts payable, accrued expenses and unearned dues	32,114	44,002	39,919	-	116,035	(151,569)	55,866	41,709	-	(53,994)
Total adjustments	291,243	(304,106)	44,972	259,519	291,628	55,119	139,717	38,838	(66,289)	167,385
Net cash provided by (used in) operating activities	1,069,005	(107,628)	108,013	-	1,069,390	154,361	21,096	91,170	-	266,627
Cash flows from investing activities:										
Purchase of property, plant and equipment	(75,585)	-	(9,022)	-	(84,607)	(61,486)	-	(9,934)	-	(71,420)
Purchase of investments	(1,725,111)	-	-	-	(1,725,111)	(1,880,155)	-	-	-	(1,880,155)
Proceeds from sales or maturities of investments	1,583,655	-	-	-	1,583,655	1,748,845	-	-	-	1,748,845
Net cash used in investing activities	(217,041)	-	(9,022)	-	(226,063)	(192,796)	-	(9,934)	-	(202,730)
Cash flows from financing activities:										
Payments on note payable	(396,890)	-	-	-	(396,890)	(212,147)	-	-	-	(212,147)
Net cash used in financing activities	(396,890)	-	-	-	(396,890)	(212,147)	-	-	-	(212,147)
Net change in cash	455,074	(107,628)	98,991	-	446,437	(250,582)	21,096	81,236	-	(148,250)
Cash, beginning of year	603,185	301,922	126,004	-	1,031,111	853,767	280,826	44,768	-	1,179,361
Cash, end of year	\$ 1,058,259	\$ 194,294	\$ 224,995	\$ -	\$ 1,477,548	\$ 603,185	\$ 301,922	\$ 126,004	\$ -	\$ 1,031,111

See accompanying independent auditors' report.

LOUISIANA MUNICIPAL ASSOCIATION AND SUBSIDIARIES

CONSOLIDATING SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES  
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002					2001				
	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau, Corp.	Eliminations	Consolidated	Louisiana Municipal Association	Risk Management Inc.	Louisiana Municipal Advisory and Technical Services Bureau, Corp.	Eliminations	Consolidated
Accounting, audit and actuary	\$ 60,240	\$ -	\$ 5,700	\$ (3,600)	\$ 62,340	\$ 56,200	\$ 1,900	\$ 5,620	\$ (3,120)	\$ 60,600
Administrative fees	-	53,900	-	(53,900)	-	-	51,900	-	(51,900)	-
Advertising	-	3,873	3,590	-	7,463	-	3,232	-	-	3,232
Board and district meetings	2,500	-	-	-	2,500	2,500	-	-	-	2,500
Books and periodicals	-	4,463	-	-	4,463	8,431	3,307	-	-	11,738
Case management	-	12,459	-	-	12,459	-	171,189	-	-	171,189
Claims processing outsourced	-	528,432	-	-	528,432	-	455,895	-	-	455,895
Commissions	-	28,037	-	-	28,037	-	62,510	-	-	62,510
Convention/conference expenses	212,839	-	-	-	212,839	185,254	-	-	-	185,254
Consulting	56,500	160,940	129,700	-	347,140	36,000	124,564	119,655	-	280,219
Depreciation and amortization	183,318	5,171	2,482	-	190,971	160,595	8,640	-	-	169,235
Dues	14,846	610	-	-	15,456	14,830	920	-	-	15,750
Education	4,984	600	-	-	5,584	2,273	882	-	-	3,155
Employee benefits	220,250	183,871	-	-	404,121	198,295	178,854	-	-	377,149
Equipment, maintenance and rental	7,330	70,344	-	-	77,674	4,795	54,547	-	-	59,342
Field audits	-	19,795	-	-	19,795	-	17,651	-	-	17,651
Insurance	37,912	38,754	-	-	76,666	31,843	30,865	2,000	-	64,708
Interest	16,062	-	-	-	16,062	32,948	-	-	-	32,948
Legal services	131,507	32,446	-	-	166,150	17,498	857	14,471	-	32,826
Legislative support	5,581	-	22,197	-	5,581	5,849	-	-	-	5,849
Louisiana Community Development Authority	-	-	-	-	-	18,650	-	-	-	18,650
Louisiana Municipal Review	25,213	-	-	-	25,213	24,012	-	-	-	24,012
Miscellaneous	39,656	82,543	26,017	-	148,216	16,445	78,615	8,438	-	103,498
National League of Cities	25,202	-	-	-	25,202	10,151	-	-	-	10,151
Office supplies and postage	65,269	44,247	1,434	-	110,950	36,681	32,944	463	-	70,088
Payroll taxes	-	75,358	-	-	75,358	-	74,809	-	-	74,809
Per diem - Board	35,200	9,500	-	-	44,700	36,200	9,700	-	-	45,900
Professional services	-	-	4,000	-	4,000	3,000	-	35,000	-	38,000
Printing	5,322	25,825	-	-	31,147	7,314	25,849	-	-	33,163
Public information	12,700	-	-	-	12,700	15,359	-	-	-	15,359
Rent	15,600	248,065	3,360	(248,065)	18,960	15,600	248,355	(248,355)	18,960	
Salaries	843,600	941,988	-	-	1,785,588	753,806	882,195	-	-	1,636,001
Telephone	34,866	33,974	-	-	68,840	34,741	33,100	-	-	67,841
Travel and meetings	23,419	37,201	-	-	60,620	25,733	25,781	-	-	51,514
Utilities and maintenance	34,793	100,100	-	-	134,893	34,646	104,340	-	-	138,986
	\$ 2,114,709	\$ 2,742,496	\$ 198,480	\$ (305,565)	\$ 4,750,120	\$ 1,789,649	\$ 2,683,401	\$ 189,007	\$ (303,375)	\$ 4,358,682

See accompanying independent auditors' report.

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

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**LMA – UNEMPLOYMENT COMPENSATION FUND**

**DECEMBER 31, 2002**

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**



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

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 2002 and 2001, and the related statements of revenues, expenses and changes in accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Fund will continue as a going concern. The Fund has experienced significant losses from operations and has a substantial deficit at December 31, 2002. These conditions raise substantial doubt about the Fund's ability to continue as a going concern. Management's plans regarding these matters are discussed Note 6 to the financial statements. The accompanying financial statements do not include any adjustments that might result for the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 18, 2003, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

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

**BALANCE SHEETS**  
**DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
Cash (note 4)	\$ 87,133	\$ 84,868
Investments (note 4)	597,332	840,105
Accrued interest receivable	1,354	7,973
Accounts receivable	49,850	239,281
Reinsurance receivable	353,934	625,332
	<u>\$ 1,089,603</u>	<u>\$ 1,797,559</u>

**LIABILITIES AND ACCUMULATED DEFICIT**

Liabilities:		
Unpaid claims liability (note 3)	\$ 1,552,000	\$ 1,552,000
Accounts payable	442,784	367,919
Due to affiliates (note 2)	129,298	103,287
	<u>2,124,082</u>	<u>2,023,206</u>
Accumulated deficit	<u>(1,034,479)</u>	<u>(225,647)</u>
	<u>\$ 1,089,603</u>	<u>\$ 1,797,559</u>

See accompanying notes to financial statements.



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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN ACCUMULATED DEFICIT**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
<b><u>REVENUES:</u></b>		
Premium income	\$ 10,022,449	\$ 9,854,584
Investment income (note 4)	26,313	65,162
	10,048,762	9,919,746
<b><u>EXPENSES:</u></b>		
Claims expense (note 3)	9,318,366	8,722,083
Reinsurance premiums	909,319	728,870
Service agent fees (note 2)	607,744	497,331
Administrative fees (note 2)	17,173	17,060
Miscellaneous	4,992	7,001
	10,857,594	9,972,345
<b><u>NET LOSS</u></b>	(808,832)	(52,599)
Accumulated deficit, beginning of year	(225,647)	(173,048)
Accumulated deficit , end of year	\$ (1,034,479)	\$ (225,647)

See accompanying notes to financial statements.



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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (808,832)	\$ (52,599)
Less adjustment for investment income	(26,313)	(65,162)
	<b>(835,145)</b>	<b>(117,761)</b>
 Adjustments to reconcile net loss to net cash used in operations:		
Change in reinsurance receivable	271,398	(339,103)
Change in receivables	189,429	(171,867)
Change in unpaid claims liability	-	(68,000)
Change in accounts payable, and due to affiliates	100,876	172,125
Total adjustments	<b>561,703</b>	<b>(406,845)</b>
 Net cash used in operating activities	<b>(273,442)</b>	<b>(524,606)</b>
 <b>Cash flows from investing activities:</b>		
Purchase of investments	(203,756)	(858,314)
Proceeds from sales/maturities of investments	439,457	1,337,931
Investment interest received	40,006	69,287
 Net cash provided by investing activities	<b>275,707</b>	<b>548,904</b>
 Net change in cash	<b>2,265</b>	<b>24,298</b>
 Cash, beginning of year	<b>84,868</b>	<b>60,570</b>
 <b>Cash, end of year</b>	<b>\$ 87,133</b>	<b>\$ 84,868</b>

See accompanying notes to financial statements.



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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

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

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

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

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. As of December 31, 2002 and 2001, there were 65 participating municipalities with a total number of participants of approximately 2,370.

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

**(b) *Basis of Accounting***

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

(c) ***Investments***

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

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

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

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

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

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

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

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

**(g) Reinsurance**

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

**(h) Income Taxes**

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

**(i) Use of Estimates**

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

**2. RELATED PARTY TRANSACTIONS**

LMA and RMI 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:

	<u>2002</u>	<u>2001</u>
Expenses:		
Administrative fees – LMA (\$.60 per person per month)	\$ <u>17,173</u>	\$ <u>17,060</u>
Service agent fees – RMI (\$20.25 in 2002 and \$16.50 in 2001 for health and \$1.20 for dental participants)	\$ <u>607,744</u>	\$ <u>497,331</u>
Due to affiliates:		
LMA	\$ 1,454	\$ 1,424
RMI	<u>127,844</u>	<u>101,863</u>
	<u>\$ 129,298</u>	<u>\$ 103,287</u>



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

**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, 2002 and 2001:

	2002	2001
	(Amounts in thousands)	
Unpaid claims and claim adjustment expenses liability at beginning of year	\$ 1,552	\$ 1,620
Incurred claims and claim adjustment expense-provision for insured events	9,318	8,722
Less payments – claims and claim adjustment expenses	(9,318)	(8,790)
Unpaid claims liability, end of year	\$ 1,552	\$ 1,552

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

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these 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 period ended December 31, 2002 and 2001.

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

	2002	2001
Insured	\$ 87,133	\$ 84,868
Uninsured	-	-
	\$ 87,133	\$ 84,868



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

**NOTES TO FINANCIAL STATEMENTS**

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

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$588,662 and \$829,068 at December 31, 2002 and 2001, respectively. The estimated fair value of investments by security type at December 31, 2002 and 2001 are as follows:

	2002	2001	Category
Money market accounts and repurchase agreements	\$ 262,238	\$ 222,761	-
U.S. Government Agency obligations	309,422	617,344	1
U.S. Treasury securities	25,672	-	1
	\$ 597,332	\$ 840,105	

The money market accounts and repurchase agreements are insured or collateralized by obligations of the U.S. Government, registered in the name of and held by the Fund's agent.

The scheduled maturities of investments held were as follows at December 31, 2002:

	Amortized Cost	Estimated Fair Value
Due in one year	\$ 412,583	\$ 414,441
Due after one year through five years	176,079	182,891
	\$ 588,662	\$ 597,332



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

**NOTES TO FINANCIAL STATEMENTS**

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

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	2002	2001
Interest income	\$ 28,032	\$ 54,275
Realized gains (losses) – net	648	( 610)
Unrealized gains (losses) arising during the year	( 2,367)	11,497
	\$ 26,313	\$ 65,162

5. **REINSURANCE POLICY COVERAGE**

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

Subsequent to December 31, 1994, the Fund obtained reinsurance from a commercial insurer to provide the following coverage:

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

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

Effective January 1, 2003, the Fund obtained reinsurance from LMRFA and discontinued its commercial insurer reinsurance coverages.

6. **GOING CONCERN**

The Fund's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which contemplate continuation of the Fund as a going concern. However, at December 31, 2002, the Fund reported a deficit of \$1,034,479 and incurred net losses of \$808,832 and \$52,599 for the years ended December 31, 2002 and 2001, respectively. The Fund's cash and investments also decreased to \$684,465 at December 31, 2002.

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

If the Fund's assets become exhausted or the Fund is unable to meet its obligations as they become due, participating members would become responsible for their respective outstanding claims obligations.





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

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

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of and for the year ended December 31, 2002, and have issued our report thereon dated June 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Postlethwaite & Netterville*  
Baton Rouge, Louisiana  
June 18, 2003



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**



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

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**Postlethwaite & Netterville**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 2002 and 2001, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 18, 2003, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2002 and 2001 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

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

**BALANCE SHEETS**  
**DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<b>2002</b>	<b>2001</b>
Cash (note 4)	\$ 49,784	\$ 309,005
Investments (note 4)	12,795,160	12,441,407
Deductibles receivable	267,443	181,290
Accounts receivable	582,410	497,663
Accrued interest receivable	129,980	111,438
Reinsurance receivable (note 3)	657,280	62,742
Note receivable (note 2)	-	396,890
	<b>\$ 14,482,057</b>	<b>\$ 14,000,435</b>

**LIABILITIES AND RETAINED EARNINGS**

<b>Liabilities:</b>		
Unpaid claims liability (note 3)	\$ 7,516,000	\$ 7,429,000
Unearned premiums	1,711,334	1,490,912
Due to affiliates - net (note 2)	934,296	307,633
Accrued expenses	23,285	35,369
	10,184,915	9,262,914
 Retained earnings	 4,297,142	 4,737,521
	<b>\$ 14,482,057</b>	<b>\$ 14,000,435</b>

See accompanying notes to financial statements.



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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
<b><u>REVENUES</u></b>		
Premium income	\$ 5,949,375	\$ 5,479,930
Investment income (note 4)	1,286,423	1,067,102
	<hr/>	<hr/>
Total revenue	7,235,798	6,547,032
	<hr/>	<hr/>
<b><u>EXPENSES</u></b>		
Claims expense (note 3)	4,423,650	4,299,077
Administrative fees (note 2)	727,485	638,244
Reinsurance premiums (note 2)	1,496,542	1,312,959
Service agent fees (note 2)	997,695	875,306
Miscellaneous	30,805	26,232
	<hr/>	<hr/>
Total expenses	7,676,177	7,151,818
	<hr/>	<hr/>
Net loss	(440,379)	(604,786)
	<hr/>	<hr/>
Retained earnings, beginning of year	4,737,521	5,342,307
	<hr/>	<hr/>
Retained earnings, end of year	<u>\$ 4,297,142</u>	<u>\$ 4,737,521</u>

See accompanying notes to financial statements.



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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
Cash flows from operating activities:		
Net loss	\$ (440,379)	\$ (604,786)
Less adjustment for investment income	(1,286,423)	(1,067,102)
	(1,726,802)	(1,671,888)
Adjustments to reconcile net loss to net cash used in operations:		
Change in receivables	(170,900)	(412,279)
Change in unpaid claims liability	87,000	41,000
Change in accrued expenses, unearned premiums and due to affiliates	240,463	75,287
	156,563	(295,992)
Total adjustments	156,563	(295,992)
Net cash used in operating activities	(1,570,239)	(1,967,880)
Cash flows from investing activities:		
Purchases of investments	(5,855,827)	(6,027,285)
Proceeds from sales and maturity of investments	6,130,497	6,938,611
Investment interest received	639,458	847,330
Principal payments from note receivable	396,890	212,147
	1,311,018	1,970,803
Net cash provided by investing activities	1,311,018	1,970,803
Net change in cash	(259,221)	2,923
Cash, beginning of year	309,005	306,082
Cash, end of year	\$ 49,784	\$ 309,005

See accompanying notes to financial statements.



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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of the Fund after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2002 and 2001, there were 201 and 186 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 Agency 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 fund balances are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

**(b) *Basis of Accounting***

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

(c) *Investments*

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

(d) *Premium Income and Accounts Receivable*

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

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

(e) *Unpaid Claims Liability*

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements. Claims reserves have been discounted at 5.8% at December 31, 2002 and 2001, respectively.

(f) *Statement of Cash Flows*

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

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

**NOTES TO FINANCIAL STATEMENTS**

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

(g) ***Reinsurance***

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

(h) ***Income Taxes***

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

(i) ***Use of Estimates***

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

(j) ***Reclassifications***

Certain items in the 2001 financial statements have been reclassified to be comparative to the 2002 presentation.

2. **RELATED PARTY TRANSACTIONS**

(a) ***Fees and Services***

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

	<u>2002</u>	<u>2001</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP)	\$ 727,485	\$ 638,244
Service agent - RMI (12.0% of ESP)	\$ 997,695	\$ 875,306
Reinsurance - LMRFA (18.0% of ESP)	\$ 1,496,542	\$ 1,312,959
Reinsurance recoveries from LMRFA	\$ 1,740,730	\$ 943,340
Due to (from) affiliates:		
LMA	\$ 487,485	\$ 398,244
RMI	223,138	174,903
LMRFA	223,673	( 265,514)
	<u>\$ 934,296</u>	<u>\$ 307,633</u>

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

**NOTES TO FINANCIAL STATEMENTS**

2. **RELATED PARTY TRANSACTIONS** (continued)

(b) *Note Receivable*

LMA had a variable rate note agreement with the Fund. The note bears an interest rate equal to the average investment return yielded by the Fund on its other investments at December 31, 2001. LMA made monthly payments of \$20,425 due the first day of each month based on a 360 month amortization. Collateral for this note was a building owned by LMA. The Fund earned interest of \$16,062 and \$32,948 in respect to the note for the years ended December 31, 2002 and 2001, respectively. During 2002, LMA repaid the remaining balance of this note.

(c) *Premium Rebates*

During 2002, the Fund's participants used \$2,200 of unearned credits. During 2001, the Fund's participants used \$89,605 of unearned credits. This amount is included in unearned premiums at December 31, 2001 and was recognized as premium income during 2002.

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, 2002 and 2001:

	2002	2001
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 14,940	\$ 13,942
Less: Reinsurance recoverables	7,511	6,554
Liability for unpaid losses at beginning of year (net)	7,429	7,388
Net incurred related to:		
Current year	3,423	3,243
Prior years	1,001	1,056
Total incurred	4,424	4,299
Net paid related to:		
Current year	693	578
Prior years	3,644	3,680
Total paid	4,337	4,258
Liability for unpaid losses at end of year (gross)	16,957	14,940
Reinsurance recoverables	9,441	7,511
Liability for unpaid losses at end of year (net)	\$ 7,516	\$ 7,429



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

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

In addition to the unpaid claims covered by the Fund's reinsurer, there are \$657,280 and \$62,742 of paid claims which are recoverable from the reinsurer at December 31, 2002 and 2001, respectively.

The Fund's claims payable have been discounted for December 31, 2002 and 2001, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$681,000 and \$776,000 at December 31, 2002 and 2001, respectively.

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these agencies shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the period ended December 31, 2002 and 2001.

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

	<u>2002</u>	<u>2001</u>
Insured	\$ 49,784	\$ 309,005
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 49,784</u>	<u>\$ 309,005</u>

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$12,007,698 and \$12,212,571 at December 31, 2002 and 2001, respectively. The estimated fair value of investments by security type at December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>	<u>Category</u>
Money market accounts	\$ 114,878	\$ 495,685	-
U.S. Government Agency obligations	12,614,876	11,886,581	1
U.S. Treasury securities	<u>65,406</u>	<u>59,141</u>	1
	<u>\$ 12,795,160</u>	<u>\$12,441,407</u>	

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

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

The scheduled contractual maturities of investments held at December 31, 2002 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 114,878	\$ 114,878
Due after one year through five years	5,536,545	5,844,876
Due after five years through ten years	2,973,925	3,340,518
Due after ten years	<u>3,382,350</u>	<u>3,494,888</u>
	<u>\$ 12,007,698</u>	<u>\$ 12,795,160</u>

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

**NOTES TO FINANCIAL STATEMENTS**

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

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Interest income	\$ 665,989	\$ 833,232
Realized gains – net	61,809	116,323
Unrealized gains arising during the year - net	<u>558,625</u>	<u>117,547</u>
	<u>\$ 1,286,423</u>	<u>\$ 1,067,102</u>

5. **REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2002 and 2001, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

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

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

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

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

The following are condensed balance sheets for LMRFA at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Assets	\$ 39,476,960	\$ 36,076,882
Liabilities	<u>( 14,867,510)</u>	<u>( 13,052,685)</u>
Retained Earnings	<u>\$ 24,609,450</u>	<u>\$ 23,024,197</u>

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

**SCHEDULE**

**DECEMBER 31, 2002**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2002 and as of the end of each of the last nine years.

	2002	2001	2000	1999	1998	1997	1996 <sup>(1)</sup>	1995	1994	1993
	(in thousands)									
ENP and investment income	\$ 7,236	\$ 6,547	\$ 6,724	\$ 5,923	\$ 7,416	\$ 8,198	\$ 7,729	\$ 7,605	\$ 7,179	\$ 7,170
Operating costs unallocated	3,253	2,853	2,766	2,438	3,452	3,497	3,499	3,376	3,213	3,247
Estimated incurred claims and claims expense, end of policy year	4,686	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976	3,930
Paid (cumulative) as of:										
End of policy year	693	578	499	460	687	655	630	463	528	409
One year later	-	1,358	1,079	1,341	1,354	1,362	1,379	1,216	1,625	1,105
Two years later	-	-	1,804	2,574	2,528	2,343	2,137	2,815	2,482	2,019
Three years later	-	-	-	3,189	3,228	3,146	2,999	3,524	3,119	2,575
Four years later	-	-	-	-	3,604	3,570	3,432	3,696	3,400	3,027
Five years later	-	-	-	-	-	3,865	3,765	4,174	3,510	3,286
Six years later	-	-	-	-	-	-	3,838	4,202	3,630	3,348
Seven years later	-	-	-	-	-	-	-	4,390	3,710	3,423
Eight years later	-	-	-	-	-	-	-	-	3,786	3,433
Nine years later	-	-	-	-	-	-	-	-	-	3,424
Re-estimated incurred claims and claims expense:										
End of policy year	4,686	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976	3,930
One year later	-	3,812	3,225	3,633	3,950	4,545	4,583	4,243	3,976	3,930
Two years later	-	-	3,062	3,917	4,065	3,769	4,583	4,243	3,976	3,930
Three years later	-	-	-	3,991	4,140	3,969	3,763	4,243	3,976	3,930
Four years later	-	-	-	-	4,281	4,136	4,044	4,117	3,976	3,930
Five years later	-	-	-	-	-	4,251	4,062	4,436	3,782	3,930
Six years later	-	-	-	-	-	-	4,139	4,456	3,839	3,491
Seven years later	-	-	-	-	-	-	-	4,570	3,853	3,535
Eight years later	-	-	-	-	-	-	-	-	3,909	3,525
Nine years later	-	-	-	-	-	-	-	-	-	3,477
Increase(decrease) in estimated incurred claims and expense from end of policy year	-	59	63	1,003	242	(294)	(444)	327	(67)	(453)

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

See accompanying independent auditors' report.





**Postlethwaite & Netterville**

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Associated Offices in Principal Cities of the United States  
www.pncpa.com

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

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund as of and for the year ended December 31, 2002, and have issued our report thereon dated June 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

**LMRMA –  
Worker's Compensation**

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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2002**



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

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**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2002 and 2001, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 18, 2003, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2002 and 2001, has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

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

**BALANCE SHEETS**  
**DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
Investments (note 4)	\$ 29,382,241	\$ 25,932,446
Accounts receivable	1,631,700	1,423,115
Reinsurance receivable (note 3)	115,824	250,343
Due from affiliates - net (note 2)	-	588,890
Accrued interest receivable	329,513	316,395
	<u>\$ 31,459,278</u>	<u>\$ 28,511,189</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 4,083,000	\$ 4,295,000
Unearned premiums	582,562	464,409
Due to affiliates - net (note 2)	260,339	-
Accounts payable and accrued expenses	879,271	888,765
	<u>5,805,172</u>	<u>5,648,174</u>
Retained earnings	<u>25,654,106</u>	<u>22,863,015</u>
	<u>\$ 31,459,278</u>	<u>\$ 28,511,189</u>

See accompanying notes to financial statements.



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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	2002	2001
<b><u>REVENUES:</u></b>		
Premium income	\$ 4,283,725	\$ 3,585,987
Investment income (note 4)	2,527,146	1,979,856
	6,810,871	5,565,843
<b><u>EXPENSES:</u></b>		
Claims expense (note 3)	2,326,464	2,683,703
Administrative fees (note 2)	472,958	367,229
Service agent fees (note 2)	540,524	419,691
Reinsurance premiums (note 2)	378,367	293,783
Second Injury Fund assessment	200,626	295,433
Office of Workers' Compensation assessment	52,002	40,674
Miscellaneous	48,839	34,931
	4,019,780	4,135,444
Net income	2,791,091	1,430,399
Retained earnings, beginning of year	22,863,015	21,432,616
Retained earnings, end of year	\$ 25,654,106	\$ 22,863,015

See accompanying notes to financial statements.



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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<b>2002</b>	<b>2001</b>
Cash flows from operating activities:		
Net income	\$ 2,791,091	\$ 1,430,399
Less adjustment for investment income	(2,527,146)	(1,979,856)
	263,945	(549,457)
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Change in receivables and reinsurance receivable	(74,066)	(319,994)
Change in unpaid claims liability	(212,000)	513,000
Change in accounts payable, accrued expenses unearned premiums and due from affiliates	957,888	(191,386)
Total adjustments	671,822	1,620
Net cash provided by (used in) operating activities	935,767	(547,837)
Cash flows from investing activities:		
Investment interest received	1,720,809	1,606,877
Purchases of investments	(8,860,588)	(25,942,276)
Proceeds from sales and maturities of investments	6,204,012	24,883,236
Net cash (used in) provided by investing activities	(935,767)	547,837
Net change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.



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

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the board of the Fund, after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims. As of December 31, 2002 and 2001, there were 203 and 185 participating municipalities, respectively.

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

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

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency 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 retained earnings are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and 14.

**(b) *Basis of Accounting***

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

(c) ***Investments***

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

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

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

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

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

The Fund provides workers' compensation coverage to members for claims incurred during the policy period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements. The costs associated with new and renewed contracts and acquisition costs are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 5.8% at December 31, 2002 and 2001, respectively.



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

**NOTES TO FINANCIAL STATEMENTS**

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

(f) *Statement of Cash Flows*

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

(g) *Reinsurance*

The Fund uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

(h) *Income Taxes*

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

(i) *Insurance Related Assessments*

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

(j) *Use of Estimates*

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

(k) *Reclassifications*

Certain items in the 2001 financial statements have been reclassified to be comparative to the 2002 presentation.



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

**NOTES TO FINANCIAL STATEMENTS**

**2. RELATED PARTY TRANSACTIONS**

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

	<u>2002</u>	<u>2001</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP) \$	472,958	\$ 367,229
Service Agent - RMI (10.0% of ESP) \$	540,524	\$ 419,691
Reinsurance - LMRFA (7.0% of ESP) \$	378,367	\$ 293,783
Reinsurance recoveries from LMRFA \$	413,192	\$ 783,570
Due (to) from affiliate:		
LMA \$	(172,958)	\$ (67,232)
RMI	(39,385)	240,247
LMRFA	(47,996)	415,875
	<u>\$ (260,339)</u>	<u>\$ 588,890</u>

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 9,107	\$ 8,969
Less: Reinsurance recoverables	<u>4,812</u>	<u>5,187</u>
Liability for unpaid losses at beginning of year (net)	<u>4,295</u>	<u>3,782</u>
Net incurred related to:		
Current year	1,959	1,544
Prior years	<u>367</u>	<u>1,140</u>
Total incurred	<u>2,326</u>	<u>2,684</u>
Net paid related to:		
Current year	643	499
Prior years	<u>1,895</u>	<u>1,672</u>
Total paid	<u>2,538</u>	<u>2,171</u>
Liability for unpaid losses at end of year (gross)	9,021	9,107
Reinsurance recoverables	<u>4,938</u>	<u>4,812</u>
Liability for unpaid losses at end of year (net)	<u>\$ 4,083</u>	<u>\$ 4,295</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY (continued)**

In addition to the unpaid claims covered by the reinsurers, there are \$115,824 and \$250,343 of paid claims which are recoverable from the reinsurer at December 31, 2002 and 2001, respectively.

The Fund's claims payable have been discounted for December 31, 2002 and 2001, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$923,000 and \$926,000 at December 31, 2002 and 2001, respectively.

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these Fund's shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2002 and 2001.

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$27,779,416 and \$25,242,344 at December 31, 2002 and 2001, respectively. The estimated fair value of investments by security type at December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>	<u>Category</u>
Money market accounts	\$ 1,298,687	\$ 451,913	-
U.S. Government Agency Obligations	11,152,085	11,804,759	1
U.S. Treasury obligations	<u>16,931,469</u>	<u>13,675,774</u>	1
	<u>\$ 29,382,241</u>	<u>\$ 25,932,446</u>	



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

**NOTES TO FINANCIAL STATEMENTS**

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

Included in investment balances as of December 31, 2002 and 2001 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

The scheduled contractual maturities of investments held at December 31, 2002 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or payment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 2,690,738	\$ 2,697,251
Due after one year through five years	11,113,192	11,972,468
Due after five years through ten years	9,479,785	9,924,199
Due after ten years	4,495,701	4,788,323
	<u>\$ 27,779,416</u>	<u>\$ 29,382,241</u>

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Interest income	\$ 1,485,246	\$ 1,510,036
Realized gains – net	129,178	255,970
Unrealized gains arising during the year	<u>912,722</u>	<u>213,850</u>
	<u>\$ 2,527,146</u>	<u>\$ 1,979,856</u>

**5. REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2002 and 2001, LMRFA provided excess reinsurance to the Fund with the following limits:

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

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



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

**NOTES TO FINANCIAL STATEMENTS**

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

The following are condensed balance sheets for LMRFA at December 31, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
Assets	\$ 39,476,960	\$ 36,076,882
Liabilities	<u>( 14,867,510)</u>	<u>( 13,052,685)</u>
Retained earnings	<u>\$ 24,609,450</u>	<u>\$ 23,024,197</u>

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

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

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

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



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

**SCHEDULE  
DECEMBER 31, 2002**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2002 and as of the end of each of the last nine years.

	2002	2001	2000	1999	1998	1997	1996 <sup>(1)</sup>	1995	1994	1993
	(in thousands)									
ENP and investment income	\$ 6,811	\$ 5,566	\$ 5,801	\$ 4,369	\$ 8,896	\$ 8,805	\$ 8,094	\$ 9,506	\$ 9,569	\$ 9,886
Operating costs, unallocated	1,693	1,452	1,445	1,502	3,327	2,836	2,889	3,380	2,991	3,136
Estimated incurred claims and expense, end of policy year	2,146	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352	7,041
Paid (cumulative) as of:										
End of policy year	643	499	716	463	469	811	725	1,007	819	1,033
One year later	-	1,093	1,475	1,074	1,067	1,377	1,218	1,940	1,736	2,109
Two years later	-	-	1,965	1,424	1,459	1,726	1,280	2,276	2,137	2,611
Three years later	-	-	-	1,499	1,541	1,937	1,376	2,480	2,456	2,989
Four years later	-	-	-	-	1,654	2,037	1,388	2,620	2,511	3,129
Five years later	-	-	-	-	-	2,155	1,449	2,693	2,633	3,157
Six years later	-	-	-	-	-	-	1,482	2,740	2,671	3,166
Seven years later	-	-	-	-	-	-	-	2,783	2,693	3,213
Eight years later	-	-	-	-	-	-	-	-	2,708	3,253
Nine years later	-	-	-	-	-	-	-	-	-	3,315
Re-estimated incurred claims and claims expense:										
End of policy year	2,146	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352	7,041
One year later	-	1,760	2,821	1,638	1,811	5,409	5,811	6,413	6,670	6,770
Two years later	-	-	2,606	1,792	2,078	2,342	5,882	6,413	6,670	7,163
Three years later	-	-	-	1,884	2,051	2,311	1,664	6,593	6,670	7,163
Four years later	-	-	-	-	2,005	2,363	1,601	3,038	6,670	7,163
Five years later	-	-	-	-	-	2,446	1,601	3,031	2,906	7,163
Six years later	-	-	-	-	-	-	1,641	3,071	2,916	3,492
Seven years later	-	-	-	-	-	-	-	3,002	2,922	3,476
Eight years later	-	-	-	-	-	-	-	-	2,897	3,486
Nine years later	-	-	-	-	-	-	-	-	-	3,500
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	60	422	411	(2,616)	(2,533)	(4,170)	(3,510)	(3,455)	(3,541)

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

See accompanying independent auditors' report.





**Postlethwaite & Netterville**

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

www.pncpa.com

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

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

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of and for the year ended December 31, 2002, and have issued our report thereon dated June 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

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**LMRFA**

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**LOUISIANA MUNICIPAL**  
**RESERVE FUND AGENCY**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency

We have audited the accompanying balance sheets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 2002 and 2001 and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 18, 2003, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information pertaining to the years ended December 31, 2002 and 2001 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**BALANCE SHEETS  
DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
Cash (note 4)	\$ 100,096	\$ 100,142
Investments (note 4)	38,211,037	35,548,600
Accrued interest receivable	411,298	367,770
Other receivables	5,604	32,817
Due from affiliates (note 2)	526,868	-
Reinsurance receivable	222,057	27,553
	<u>\$ 39,476,960</u>	<u>\$ 36,076,882</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 14,379,000	\$ 12,323,000
Unearned premiums	32,023	33,590
Due to affiliates (note 2)	-	681,388
Accrued expenses	456,487	14,707
	<u>14,867,510</u>	<u>13,052,685</u>
Retained earnings	<u>24,609,450</u>	<u>23,024,197</u>
	<u>\$ 39,476,960</u>	<u>\$ 36,076,882</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
<b><u>REVENUES:</u></b>		
Premium income (note 2)	\$ 1,959,736	\$ 1,715,043
Investment income (note 4)	<u>3,364,499</u>	<u>2,574,977</u>
Total revenues	<u>5,324,235</u>	<u>4,290,020</u>
<b><u>EXPENSES:</u></b>		
Claims expense (note 3)	3,676,101	2,528,469
Reinsurance premium	-	237,825
Miscellaneous	<u>62,881</u>	<u>56,151</u>
Total expenses	<u>3,738,982</u>	<u>2,822,445</u>
Net income	1,585,253	1,467,575
Retained earnings, beginning of year	<u>23,024,197</u>	<u>21,556,622</u>
Retained earnings, end of year	<u>\$ 24,609,450</u>	<u>\$ 23,024,197</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$ 1,585,253	\$ 1,467,575
Less adjustment for investment income	<u>(3,364,499)</u>	<u>(2,574,977)</u>
	<u>(1,779,246)</u>	<u>(1,107,402)</u>
Adjustments to reconcile net income to net cash used in operations:		
Change in due to affiliates, reinsurance receivable, other receivables	(1,375,547)	(41,695)
Change in unpaid claims liability	2,056,000	582,000
Change in unearned premiums reinsurance payable, and accrued expenses	<u>440,213</u>	<u>(5,028)</u>
Total adjustments	<u>1,120,666</u>	<u>535,277</u>
Net cash used in operating activities	<u>(658,580)</u>	<u>(572,125)</u>
Cash flows from investing activities:		
Purchases of investments	(10,303,677)	(19,714,564)
Proceeds from sales or maturities of investments	9,047,078	18,227,111
Investment interest received	<u>1,915,133</u>	<u>2,059,319</u>
Net cash provided by investing activities	<u>658,534</u>	<u>571,866</u>
Net change in cash	(46)	(259)
Cash, beginning of year	<u>100,142</u>	<u>100,401</u>
Cash, end of year	<u>\$ 100,096</u>	<u>\$ 100,142</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability and Workers' Compensation Funds. During 2002 and 2001, LMRFA also reinsures two and three municipalities, respectively. Effective January 1, 2003, the Fund insured the LMRMA Accident and Health Insurance Fund.

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

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

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

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

**(b) *Basis of Accounting***

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



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

**(c) *Investments***

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

**(d) *Premium Income***

The premium income of LMRFA collected in the current year is based on a percentage of premium of LMRMA workers' compensation and public liability funds (see note 2). Pursuant to the reinsurance agreements, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. For the years ended December 31, 2002 and 2001, LMRFA provided reinsurance directly to municipalities for a total premium of \$84,827 and \$108,300, respectively. The costs associated with new and renewal contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred.

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

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements. Such reserves have been discounted at 5.8% at December 31, 2002 and 2001.

**(f) *Statement of Cash Flows***

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

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

**(g) *Income Taxes***

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

**(h) *Use of Estimates***

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

**2. RELATED PARTY TRANSACTIONS**

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

	Fee Basis	2002	2001
Premium income:			
LMRMA:			
Public Liability	18.0% ESP	\$ 1,496,542	\$ 1,312,959
Workers' Compensation	7.0% ESP	378,367	293,783
		\$ 1,874,909	\$ 1,606,743
Due from (to) affiliates:			
LMRMA:			
Public Liability		\$ 223,673	\$ (265,713)
Workers' Compensation		47,995	(415,875)
RMI		255,200	-
		\$ 526,868	\$ (681,388)



**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, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 12,323	\$ 11,741
Less: Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year (net)	<u>12,323</u>	<u>11,741</u>
Net incurred related to:		
Current year	2,875	1,830
Prior years	<u>801</u>	<u>698</u>
Total incurred	<u>3,676</u>	<u>2,528</u>
Net paid related to:		
Current year	-	-
Prior years	<u>1,620</u>	<u>1,946</u>
Total paid	<u>1,620</u>	<u>1,946</u>
Liability for unpaid losses at end of year (gross)	14,379	12,323
Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year (net)	<u>\$ 14,379</u>	<u>\$ 12,323</u>

The Fund's claims payable have been discounted for December 31, 2002 and 2001 based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$5,116,000 and \$4,397,000 at December 31, 2002 and 2001, 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, 2002 and 2001.

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



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

	2002	2001
Insured	\$ 100,096	\$ 100,142
Uninsured	-	-
	\$ 100,096	\$ 100,142

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

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 investments include securities which are insured or registered or securities held by LMRFA or its agent in LMRFA's name. The U.S. Government agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. Money market accounts are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent. The amortized cost of the Fund's investments are \$35,972,335 and \$34,734,220 at December 31, 2002 and 2001, respectively. The estimated fair value of investments by type at December 31, 2002 and 2001, are as follows:

	2002	2001	Category
Money market accounts	\$ 1,114,241	\$ 2,205,517	-
U.S. Government Agency obligations	28,790,024	26,567,677	1
U.S. Treasury obligations	8,306,772	6,775,406	1
	\$ 38,211,037	\$ 35,548,600	

Included in investment balances as of December 31, 2002 and 2001 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

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

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 4,081,732	\$ 4,094,714
Due after one year through five years	13,689,712	14,705,764
Due after five years through ten years	8,402,250	9,237,468
Due after ten years	9,798,641	10,173,091
	<u>\$ 35,972,335</u>	<u>\$38,211,037</u>

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Interest income	\$ 1,825,559	\$ 1,991,614
Realized gains – net	114,618	153,336
Unrealized gains arising during the year	1,424,322	430,027
	<u>\$ 3,364,499</u>	<u>\$ 2,574,977</u>

5. **REINSURANCE POLICY COVERAGE**

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



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**

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

*Assumed:*

For the years ended December 31, 2002 and 2001, LMRFA provided excess reinsurance to LMRMA Public Liability and Workers' Compensation 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

Public Liability Fund

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

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

The LMRMA Accident and Health Fund obtained commercial reinsurance effective January 1, 1995 and is not covered by LMRFA. As of December 31, 2002 and 2001, the Fund had no outstanding reserves related to the LMRMA Accident and Health Fund. Effective January 1, 2003, the Fund began providing reinsurance to the LMRMA Accident and Health Fund.

As of December 31, 2002 and 2001, LMRFA also provides reinsurance for 2 and 3, respectively, municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium.

*Ceded:*

LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses for the periods January 1, 1995 through December 31, 2001. For the years ended December 31, 2002 and 2003, the LMRFA did not renew this reinsurance. For the year ended December 31, 2001, LMRFA obtained reinsurance with the following coverage:

Workers' Compensation Fund

Item I: \$2,000,000 annual aggregate

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

No reinsurance is obtained for the Public Liability Fund coverage.

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**SCHEDULE**

**DECEMBER 31, 2002**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2002 and as of the end of each of the last nine years.

	2002	2001	2000	1999	1998	1997	1996 <sup>(1)</sup>	1995	1994	1993
	(in thousands)									
ENP and investment income	\$ 5,324	\$ 4,290	\$ 4,586	2,591	4,474	5,004	4,142	4,327	4,443	4,897
Operating costs, unallocated	63	294	293	135	407	483	415	427	20	17
Estimated incurred claims and expense, end of policy year	3,710	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144	3,130
Paid (cumulative) as of:										
End of policy year	-	-	-	-	-	140	-	-	195	627
One year later	-	413	69	431	-	140	-	-	487	627
Two years later	-	-	300	737	775	252	69	283	490	1,175
Three years later	-	-	-	910	859	555	247	1,289	542	1,265
Four years later	-	-	-	-	931	571	650	1,350	1,155	1,446
Five years later	-	-	-	-	-	750	1,277	1,423	1,166	2,104
Six years later	-	-	-	-	-	-	1,281	1,585	1,172	2,136
Seven years later	-	-	-	-	-	-	-	1,797	1,312	2,621
Eight years later	-	-	-	-	-	-	-	-	1,312	2,661
Nine years later	-	-	-	-	-	-	-	-	-	2,733
Re-estimated incurred claims and claims expense:										
End of policy year	3,710	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144	3,130
One year later	-	2,305	1,624	2,319	2,352	2,016	2,083	2,293	4,230	3,792
Two years later	-	-	1,570	3,690	2,434	1,906	1,367	3,818	2,304	3,146
Three years later	-	-	-	3,842	2,167	1,630	1,574	3,367	2,010	2,973
Four years later	-	-	-	-	2,222	1,434	1,795	3,099	2,219	3,178
Five years later	-	-	-	-	-	1,556	1,796	2,795	2,168	3,388
Six years later	-	-	-	-	-	-	1,785	2,739	2,282	3,032
Seven years later	-	-	-	-	-	-	-	2,678	2,171	3,292
Eight years later	-	-	-	-	-	-	-	-	2,180	3,133
Nine years later	-	-	-	-	-	-	-	-	-	3,253
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(4)	(213)	1,859	(80)	(2,345)	(2,102)	(1,115)	(1,964)	123

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

See accompanying independent auditors' report.





**Postlethwaite & Netterville**

A Professional Accounting Corporation  
Associated Offices in Principal Cities of the United States  
www.pncpa.com

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

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency:

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

LMA  
Unemployment Comp.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund

We have audited the accompanying balance sheets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2002 and 2001, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 18, 2003, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
June 18, 2003

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**BALANCE SHEETS**  
**DECEMBER 31, 2002 AND 2001**

**ASSETS**

	<u>2002</u>	<u>2001</u>
Cash (note 3)	\$ 20,861	\$ 104,388
Investments (note 3)	3,451,402	6,978,837
Accounts receivable	43,517	57,348
Accrued interest receivable	41,062	86,050
	<u>\$ 3,556,842</u>	<u>\$ 7,226,623</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 4)	\$ 100,000	\$ 100,000
Accrued expenses	78,397	14,211
Policyholder dividend payable (note 2)	-	191,490
	<u>178,397</u>	<u>305,701</u>
Retained earnings	<u>3,378,445</u>	<u>6,920,922</u>
	<u>\$ 3,556,842</u>	<u>\$ 7,226,623</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
<b><u>REVENUES:</u></b>		
Premium income	\$ 205,912	\$ 212,679
Investment income	<u>279,577</u>	<u>523,866</u>
Total revenues	<u>485,489</u>	<u>736,545</u>
<b><u>EXPENSES:</u></b>		
Claims expense (note 4)	353,758	275,081
Service agent fees	23,489	23,843
Actuarial and professional fees	27,989	-
Policyholder dividend (note 2)	-	191,490
Miscellaneous	<u>5,730</u>	<u>16,228</u>
Total expenses	<u>410,966</u>	<u>506,642</u>
Net income	74,523	229,903
Excess fund distribution (note 2)	(3,617,000)	-
Retained earnings, beginning of year	<u>6,920,922</u>	<u>6,691,019</u>
Retained earnings, end of year	<u>\$ 3,378,445</u>	<u>\$ 6,920,922</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2002 AND 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income	\$ 74,523	\$ 229,903
Less adjustment for investment income	<u>(279,577)</u>	<u>(523,866)</u>
	<u>(205,054)</u>	<u>(293,963)</u>
Adjustments to reconcile net income to net cash used in operations:		
Changes in operating assets and liabilities:		
Accounts receivable	13,831	21,571
Unpaid claims liability	-	57,519
Accrued expenses and dividend payable	<u>(127,304)</u>	<u>5,814</u>
Total adjustments	<u>(113,473)</u>	<u>84,904</u>
Net cash used in operating activities	<u>(318,527)</u>	<u>(209,059)</u>
Cash flows from investing activities:		
Purchases of investments	(1,395,428)	(3,823,798)
Proceeds from sale or maturity of investments	4,944,404	3,665,077
Interest income received	<u>303,024</u>	<u>435,871</u>
Net cash provided by investing activities	<u>3,852,000</u>	<u>277,150</u>
Cash flows from financing activities:		
Distribution of excess funds	<u>(3,617,000)</u>	<u>-</u>
Net cash used in financing activities	<u>(3,617,000)</u>	<u>-</u>
Net change in cash	(83,527)	68,091
Cash, beginning of year	<u>104,388</u>	<u>36,297</u>
Cash, end of year	<u>\$ 20,861</u>	<u>\$ 104,388</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

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

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

As of December 31, 2002, there were approximately 6,600 participants and 136 participating municipalities. As of December 31, 2001, there were approximately 6,100 participants and 142 participating municipalities.

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

**(b) *Basis of Accounting***

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

**(c) *Cash and Cash Flows***

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

**(d) *Investments***

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



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

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

(e) *Unpaid Claims Liability*

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

(f) *Income Taxes*

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

(g) *Premium Income and Accounts Receivable*

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

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

(h) *Use of Estimates*

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

2. **RELATED PARTY TRANSACTIONS**

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

In 2001, the LMA board approved a rebate of \$191,490 of 2000 interest earnings to be paid to members of the Fund in 2002. This rebate is to be prorated on premium payments for the year 2000 and paid to those municipalities that were members of the Fund as of December 31, 2000.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**3. CASH AND INVESTMENTS**

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

The demand deposits are categorized to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance. Bank account balances as listed below are either insured or secured by collateral as follows:

	<u>2002</u>	<u>2001</u>
Insured	\$ 20,861	\$ 100,000
Uninsured	-	4,388
	<u>\$ 20,861</u>	<u>\$ 104,388</u>

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

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

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

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



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

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

The amortized cost of the Fund's investments is \$3,308,312 and \$6,842,978 at December 31, 2002 and 2001, respectively. The estimated fair value for investments by type at December 31 is as follows:

	<u>2002</u>	<u>2001</u>	<u>Category</u>
Money market accounts	\$ 127,452	\$ 261,173	-
U.S. Government Agency obligations	1,275,292	2,661,813	1
U.S. Treasury securities	<u>2,048,658</u>	<u>4,055,851</u>	1
	<u>\$ 3,451,402</u>	<u>\$ 6,978,837</u>	

The scheduled contractual maturities of investments held at December 31, 2002 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year	\$ 452,096	\$ 454,197
Due after one year through five years	1,228,706	1,293,508
Due after five years through ten years	1,057,752	1,106,790
Due after ten years	<u>569,758</u>	<u>596,547</u>
	<u>\$ 3,308,312</u>	<u>\$ 3,451,042</u>

Investment income for the years ended December 31, 2002 and 2001 consists of the following:

	<u>2002</u>	<u>2001</u>
Interest income	\$ 209,759	\$ 382,362
Realized gains (losses) – net	62,587	40,079
Unrealized gains arising during the year	<u>7,231</u>	<u>101,425</u>
	<u>\$ 279,577</u>	<u>\$ 523,866</u>

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**4. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate unpaid claims liability for the Fund for the years ended December 31, 2002 and 2001:

	2002	2001
	(in thousands)	
Unpaid claims liability at beginning of year	\$ <u>100</u>	\$ <u>42</u>
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	<u>354</u>	<u>275</u>
Payments:		
Claims and claim adjustment expenses Attributable to insured events of current year	291	175
Claims and claim adjustment expenses Attributable to insured events of prior years	<u>63</u>	<u>42</u>
prior years	<u>63</u>	<u>42</u>
Total payments	<u>354</u>	<u>217</u>
Total unpaid claims liability at end of year	\$ <u><u>100</u></u>	\$ <u><u>100</u></u>





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

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund

We have audited the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) as of and for the year ended December 31, 2002, and have issued our report thereon dated June 18, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

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

*Postlethwaite & Netterville*  
Baton Rouge, Louisiana  
June 18, 2003