

**LOUISIANA ASSESSORS'
INSURANCE FUND**

FINANCIAL REPORT

December 31, 2005

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 8-9-06

Provost Certified
Salter Public
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Alford LLC Business
Advisors

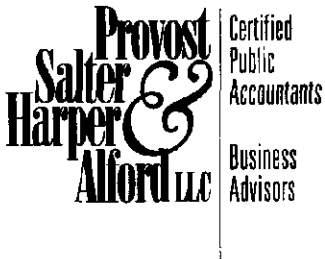
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LOUISIANA ASSESSORS' INSURANCE FUND

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December 31, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Louisiana Assessors' Insurance Fund

We have audited the accompanying balance sheets of the Louisiana Assessors' Insurance Fund (a quasi-public organization) (the Plan) as of December 31, 2005 and 2004, 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 Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Assessors' Insurance Fund as of December 31, 2005 and 2004 and the results of its operations and 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 April 24, 2006 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with government auditing standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis information on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule on page 20 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the Louisiana Assessors' Insurance Fund. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PROVOST, SALTER, HARPER & ALFORD, LLC

Provost, Salter, Harper & Alford, LLC

April 24, 2006

LOUISIANA ASSESSORS' INSURANCE FUND

Management's Discussion and Analysis

December 31, 2005

LOUISIANA ASSESSORS' INSURANCE FUND
Baton Rouge, Louisiana

Management's Discussion and Analysis (Unaudited)

The following discussion and analysis of the Louisiana Assessors' Insurance Fund (the Plan) for the year ended December 31, 2005 highlights relevant aspects of the basic financial statements and provides an analytical overview of the Plan's financial activities.

FINANCIAL HIGHLIGHTS

Assets increased by approximately \$875,000, or 68%.

The Plan had net income of approximately \$340,000, compared to a net loss of approximately \$600,000 in 2004.

The amount of premium revenue increased approximately \$1,309,000 and expenses increased approximately \$376,000 over the prior year amounts.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the Plan's basic financial statements, together with the related notes to the financial statements, required supplementary information, and the supporting schedules, all of which are described below.

Balance Sheets – This statement reports the Plan's assets, liabilities, and retained earnings on December 31, 2005 and 2004.

Statements of Revenues, Expenses, and Changes in Retained Earnings – This statement reports the Plan's revenues, expenses, and net income (or loss) for the years ended December 31, 2005 and 2004.

Statements of Cash Flows – This statement reports the net increase or decrease in cash for the years ended December 31, 2005 and 2004.

LOUISIANA ASSESSORS' INSURANCE FUND

Baton Rouge, Louisiana

Management's Discussion and Analysis (Unaudited), Continued

Notes to the Financial Statements – The financial statement notes provide additional information that is essential to a complete understanding of the data set forth in the financial statements. They are considered an integral part of the financial statements. A description of the information provided in the notes follows:

Note 1 (Plan Description) Provides a general description of the Plan. Information is included regarding the board of trustees, plan membership, a description of basic insurance benefits, and the formula for computing contributions.

Note 2 (Summary of Significant Accounting Policies) Provides information about the accounting methods and policies used in determining amounts shown on the financial statements. Information relative to the basis of accounting, the determination of estimates, Plan cash and investments, unpaid claims liability, deferred premiums, reinsurance, income taxes and properties is included in this note.

Note 3 (Deposits and Investments) Describes the categories of cash and investments.

Note 4 (Claims Expense and Unpaid Claims Reserve) Describes changes in the aggregate unpaid claims liabilities as of December 31, 2005.

Note 5 (Reinsurance Policy Coverage) Outlines the reinsurance policy guidelines and limitations.

Note 6 (Other Matters) Describes the Internal Revenue Code, which allows net investment income to be exempt from income taxes.

Note 7 (Administrative Expenses) Details the expenses incurred throughout the year.

Note 8 (Related Party Transactions) Provides an explanation of the shared expenses, the Plan reimburses to the Louisiana Assessors' Association.

LOUISIANA ASSESSORS' INSURANCE FUND'S FINANCIAL ANALYSIS

The Plan is a cost sharing, multiple-employer, qualified defined benefit insurance plan covering assessors and their deputies employed by any parish of the State of Louisiana, under the provisions of Louisiana Revised Statutes 47:1922, effective August 30, 1988. The plan is a qualified plan as defined by the Internal Revenue Code, effective January 1, 1998. Insurance benefits are funded through premium income.

LOUISIANA ASSESSORS' INSURANCE FUND

Baton Rouge, Louisiana

Management's Discussion and Analysis (Unaudited), Continued

Statement of Revenues, Expenses, and Changes in Retained Earnings – Revenues include member's premiums and investment income.

	2005	2004	2005 Percentage Change
Revenues and Expenses	<u>2005</u>	<u>2004</u>	
Revenues	\$ 8,067,930	\$ 6,753,574	19%
Claims expenses and insurance premiums	7,604,191	7,234,205	5%
Administrative expenses	125,595	119,333	5%
Total expenses	<u>7,729,786</u>	<u>7,353,538</u>	5%
Net Income(Loss)	<u>\$ 338,144</u>	<u>\$ (599,964)</u>	156%

Balance Sheet – Assets include reinsurance receivable, investments, and prepaid expenses. Liabilities include deferred premiums, checks written in excess of bank balance and unpaid claims.

	2005	2004	2005 Percentage Change
Assets, Liabilities and Retained Earnings	<u>2005</u>	<u>2004</u>	
Current assets	\$ 2,158,042	\$ 1,281,052	68%
Equipment, net of depreciation	7,170	8,545	-16%
Total assets	<u>\$ 2,165,212</u>	<u>\$ 1,289,597</u>	68%
Current liabilities	\$ 1,050,219	\$ 512,748	105%
Retained earnings			
Invested in equipment	7,170	8,545	-16%
Unrestricted	1,107,823	768,304	44%
Total liabilities and retained earnings	<u>\$ 2,165,212</u>	<u>\$ 1,289,597</u>	68%

LOUISIANA ASSESSORS' INSURANCE FUND

Baton Rouge, Louisiana

Management's Discussion and Analysis (Unaudited), Continued

REQUESTS FOR INFORMATION

This Annual Financial Report is designed to provide a general overview of the Plan's finances for interested parties. Questions concerning any of the information provided herein, or requests for additional financial information should be addressed to the Louisiana Assessors' Insurance Fund, P.O. Box 14699, Baton Rouge, LA 70898.

LOUISIANA ASSESSORS' INSURANCE FUND

Financial Statements

December 31, 2005

LOUISIANA ASSESSORS' INSURANCE FUND

*Balance Sheets**December 31, 2005 and 2004*

ASSETS	2005	2004
Current Assets		
Cash	\$ 958,467	\$ -
Reinsurance receivable	-	69,853
Premiums receivable	15,452	9,425
Prepaid expense	-	36,194
Investments, at fair value	1,184,123	1,165,580
Total current assets	2,158,042	1,281,052
Equipment, net of depreciation	7,170	8,545
Total Assets	\$ 2,165,212	\$ 1,289,597
LIABILITIES AND RETAINED EARNINGS		
Current Liabilities		
Excess of outstanding checks over bank balance	\$ -	\$ 124,576
Deferred premiums	35,400	38,080
Unpaid claims	1,014,819	350,092
Total current liabilities	1,050,219	512,748
Retained Earnings		
Invested in equipment	7,170	8,545
Unrestricted	1,107,823	768,304
Total retained earnings	1,114,993	776,849
Total Liabilities and Retained Earnings	\$ 2,165,212	\$ 1,289,597

LOUISIANA ASSESSORS' INSURANCE FUND

Statements of Revenues, Expenses, and Changes in Retained Earnings *Years Ended December 31, 2005 and 2004*

	2005	2004
Operating Revenues		
Premium income	\$ 8,049,387	\$ 6,740,160
Operating Expenses		
Claims expenses	6,485,235	6,179,007
Insurance premiums	1,118,956	1,055,198
Administrative expenses	125,595	119,333
Total Operating Expenses	7,729,786	7,353,538
Net Operating Income (Loss)	319,601	(613,378)
Nonoperating Income		
Investment income	18,543	13,414
Net Income (Loss)	338,144	(599,964)
Retained earnings, beginning of year	776,849	1,376,813
Retained earnings, end of year	\$ 1,114,993	\$ 776,849

LOUISIANA ASSESSORS' INSURANCE FUND

Statements of Cash Flows

Years Ended December 31, 2005 and 2004

	2005	2004
Cash Flows From Operating Activities		
Receipts from premiums	\$ 8,040,680	\$ 6,722,209
Payments for claims	(5,875,231)	(6,400,012)
Payments for insurance premiums	(1,082,762)	(1,091,392)
Payments for administrative expenses	(124,220)	(117,842)
Investment income	41,853	21,404
Net Cash Provided By (Used In) Operating Activities	1,000,320	(865,633)
Cash Flows From Investing Activities		
Sale of investments	-	213,502
Purchase of investments	(41,853)	(20,043)
Net Cash Provided By (Used In) Investing Activities	(41,853)	193,459
Net Increase (Decrease) in Cash	958,467	(672,174)
Cash, beginning of year	-	672,174
Cash, end of year	\$ 958,467	\$ -
Reconciliation of Operating Income to Net Cash Provided By Operations		
Net income (loss)	\$ 338,144	\$ (599,964)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,375	1,491
Unrealized loss on investments	23,310	7,990
(Increase) decrease in assets		
Reinsurance receivable	69,853	(25,465)
Premiums receivable	(6,027)	(7,225)
Prepays	36,194	(36,194)
(Decrease) increase in liabilities		
Excess of outstanding checks over bank balance	(124,576)	124,576
Unpaid claims liability	664,727	(320,116)
Deferred premiums	(2,680)	(10,726)
Net Cash Provided By (Used In) Operating Activities	\$ 1,000,320	\$ (865,633)

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements

December 31, 2005

1. Description of the Plan

The following description of the Louisiana Assessors' Insurance Fund (the Plan) provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General. The Plan provides health and other benefits covering all assessors and assessors' employees throughout the state of Louisiana. The Plan and related trust were established on August 30, 1988, pursuant to Louisiana Revised Statute 47:1922.

Benefits. The Plan provides health benefits (medical, hospital, surgical, major medical, and dental), life insurance coverage, long-term disability benefits, vision, long term care and death benefits to participants and to their beneficiaries and covered dependents. Retired employees are entitled to similar health benefits (in excess of Medicare coverage) provided they have attained at least age fifty-five or thirty years of service regardless of age.

Health and dental claims of active and retired participants, dependents, and beneficiaries are processed by Benesys, Inc., the third party administrator, but the responsibility for payments to participants and providers is retained by the Plan. Disability claims and death claims are processed by Sun Life of Canada. Vision coverage is provided by AIG Life Insurance Company and claims are processed by National Vision Administrators, Inc. Long term care benefits are provided through individual policies issued by Transamerica Life Insurance Company.

Contributions. The Plan is financed by premiums on behalf of the participants. The amount is determined annually by the Plan Administrator.

Other. The Plan's Board of Trustees, as Administrator, has the right under the Plan to modify the benefits provided to active and retired employees. The Plan may be terminated at any time.

Total membership in the Plan at December 31 is as follows:

	2005	2004
Retirees and beneficiaries receiving health care benefits	282	276
Active plan members	644	641
Total	926	917

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

2. Summary of Significant Accounting Policies

Basis of Accounting. The Plan is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Plan applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Investments. Cash includes amounts in demand deposits. There are no cash equivalents used in the statement of cash flows. Under state law, the Plan may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

State statutes authorize the Plan to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in Louisiana banks, or any other federally insured investment or mutual funds, which have underlying investments consisting of securities of the U.S. government or its agencies.

The Plan's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the plan year.

Equipment. Equipment is stated at cost and is depreciated over the estimated useful life of the asset utilizing the straight line method. It is the Plan's policy to capitalize expenditures for those items in excess of \$500. Lesser amounts are expensed. The estimated useful lives of the assets are as follows:

Equipment

7-10 years

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

Unpaid Claims Liability. The Plan 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 certain unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as claims history, 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. 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 amounts in the financial statements and it is possible that they could change in the subsequent year.

Deferred Premiums. The liability for deferred premiums represents payments received for premiums that are not due until after year end.

Reinsurance. The Plan 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 Plan as direct insurer of the risk reinsured. The Plan 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.

Income Taxes. The Plan is exempt from federal income taxes under Section 501(c)9 of the Internal Revenue Code.

Operating Revenues and Expenses. Operating revenues and expenses are those that result from providing insurance benefits and include all revenue and expenses unrelated to investing activities.

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

3. Deposits and Investments

Deposits. Under State law, federal deposit insurance or the pledge of securities owned by the fiscal agent bank must secure these deposits (or the resulting bank balances). The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. Deposits are classified in terms of whether they are exposed to custodial credit risk, the risk that in the event of a bank failure, the Plan's deposits may not be returned. Deposits are exposed to custodial credit risk if they are either a) uninsured and uncollateralized, b) uninsured and collateralized with securities held by the pledging financial institution, or c) uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the Plan.

At December 31, 2005, the Plan carried deposits with a bank balance of \$1,365,683, of which \$100,000 was secured by federal deposit insurance. Due to a miscommunication between management of the Plan and bank personnel, the remaining \$1,265,683 was uninsured and uncollateralized.

Investments. All of the Plan's investments are insured or registered and held by a bank-administered trust fund or a Securities and Exchange Commission registered broker-dealer. The weighted average maturity of the Plan's investments is 1.9 years and the average duration is 1.7 years with individual investments having maturities ranging from less than one to three years. Seventy-four percent of the Plan's investments are explicitly guaranteed by the US Government and therefore have no credit rating. Twenty-five percent of the Plan's investments are rated AAA and one percent of the Plan's investments are rated AA by Standard & Poor's.

At December 31, 2005, the Plan carried investments with a book balance and market value of \$1,184,123.

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

4. Claims Expense and Unpaid Claims Reserve

The following represents changes in the aggregate unpaid claims liabilities for the Plan for the year ended December 31:

	2005	2004
Unpaid losses and loss adjustment expenses at beginning of fiscal year	\$ 350,092	\$ 670,208
Incurred losses and loss adjustment expenses		
Provision for insured events of current year	6,825,391	6,811,727
Increases in provision for insured events of prior fiscal years	232,747	67,464
Total incurred losses and loss adjustment expenses	7,058,138	6,879,191
Payments		
Losses and loss adjustment expenses attributable to insured events of current fiscal year	5,838,598	6,461,635
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	554,813	737,672
Total payments	6,393,411	7,199,307
Unpaid losses and loss adjustment expenses at end of fiscal year	\$ 1,014,819	\$ 350,092

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

5. Reinsurance Policy Coverage

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

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

The Plan obtained reinsurance from a commercial insurer providing aggregate coverage of \$1,825,000 each and every loss in excess of \$175,000.

Reinsurance premiums ceded during the year totaled \$222,000 and \$212,577 for the years ended December 31, 2005 and 2004, respectively. Losses recoverable from reinsurers were \$0 and \$127,982 for the years ended December 31, 2005 and 2004, respectively.

6. Other Matters

The trust established under the Plan to hold the Plan's assets is intended to qualify pursuant to Section 501(c)9 of the Internal Revenue Code and, accordingly, the Trust's net investment income is exempt from income taxes. The trust has a favorable tax determination letter from the Internal Revenue Service, and the Plan sponsor believes that the trust, as amended, continues to qualify and to operate in accordance with applicable provisions of the Internal Revenue Code.

7. Administrative Expenses

The following administrative expenses were incurred during the year:

	2005	2004
Administrative allocation	\$ 102,000	\$ 102,000
Bank charges	351	486
Computer supplies	1,438	1,368
Depreciation	1,375	1,490
Legal fees	1,342	-
Office supplies	273	486
Per diem	3,075	4,500
Postage	3,055	1,019
Professional fees	6,600	6,300
Travel	1,325	1,684
Miscellaneous operating expense	4,761	-
Total	\$ 125,595	\$ 119,333

LOUISIANA ASSESSORS' INSURANCE FUND

Notes to Financial Statements, Continued

December 31, 2005

8. Related Parties

The Plan is related to the Louisiana Assessors' Association and the Louisiana Assessors' Retirement Fund. An administrative allocation of \$102,000 was paid to the Association for the years ended December 31, 2005 and 2004, respectively, to reimburse it for office space, utilities and other shared costs.

LOUISIANA ASSESSORS' INSURANCE FUND

Supplementary Information

December 31, 2005

LOUISIANA ASSESSORS' INSURANCE FUND

*Schedule of Per Diem
Paid Board Members*

Year Ended December 31, 2005

	Number of Days	Amount Paid
Katherine Broadway	3	\$ 225
Richard Ducote, Jr.	2	150
Randell A. Fletcher	4	300
Irby S. Gamble	4	300
D. Rick Hargis	3	225
Charles R. Henington, Jr.	2	150
Clyde C. Hightower	4	300
Rickey J. Huval, Sr.	4	300
Betty Jefferson	1	75
Richard Karam	3	225
Michael S. Martin	2	150
Randy Seal	2	150
John Sneve	3	225
Erroll G. Williams	4	300
Meeting totals	<u>41</u>	<u>\$ 3,075</u>

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

Board of Trustees
Louisiana Assessors' Insurance Fund

We have audited the financial statements of the Louisiana Assessors' Insurance Fund as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated April 24, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Louisiana Assessors' Insurance Fund 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* as described in the accompanying schedule of findings as item 2005-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting of the Louisiana Assessors' Insurance Fund 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 matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as described in the accompanying schedule of findings as item 2005-1.

This report is intended solely for the information and use of the Board of Trustees, management and the State of Louisiana Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statutes 24:513, this report is distributed by the Legislative Auditor as a public document.

PROVOST, SALTER, HARPER & ALFORD, LLC

Provost, Salter, Harper & Alford, LLC

April 24, 2006

LOUISIANA ASSESSORS' INSURANCE FUND

Schedule of Findings

December 31, 2005

Noncompliance and Reportable Conditions

Condition. Item 2005-1 – Documentation of evidence of collateral for deposit of public funds is not adequate.

Criteria. Under State law, federal deposit insurance or the pledge of securities owned by the fiscal agent bank must secure deposits. The Plan's system of internal control should require documentation of evidence that the bank has adequately pledged collateral for deposits.

Effect. Deposits in excess of FDIC coverage are uncollateralized.

Cause. Miscommunication between bank representatives and management resulted in the bank failing to properly classify the Plan's deposits as public, thus had not pledged securities as required by State law.

Recommendation. Management should obtain written evidence of the bank's compliance with deposit collateral requirements on a monthly basis.

Auditee Response. Management of the plan relied on bank personnel to adequately collateralize the deposits. On June 29, 2005, management received communications from the bank stating that the accounts had been reclassified as public and were properly collateralized as of that date. However, the response of the bank proved to be in error, and management is again in the process of communicating with the bank to ensure proper collateralization of deposits.

Prior Year Findings.

Item 2005-1 is a repeat of the prior year finding.