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Louisiana Schools Self-Insured Group
Baton Rouge, Louisiana
June 30, 2008

Release Date 1/21/09

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October 15, 2008

Independent Auditor's Report

Insurance Committee
Louisiana Schools Self-Insured Group
Baton Rouge, Louisiana

We have audited the balance sheets of the

Louisiana Schools Self-Insured Group
Baton Rouge, Louisiana

as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the Louisiana Schools Self-Insured Group. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the Louisiana Schools Self-Insured Group as of June 30, 2008 and 2007, 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 Management's Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2008, on our consideration of the Louisiana Schools Self-Insured Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

Louisiana Schools Self-Insured Group
Management Discussion and Analysis

The following is management's discussion and analysis of the financial performance of Louisiana Schools Self-Insured Group (the Group) for the fiscal years ending June 30, 2008 and 2007. It is presented as a narrative overview and analysis for the purpose of assisting the reader in interpreting the key elements of the financial statements and notes to the financial statements, and supporting schedules for the current year.

The Louisiana Schools Self-Insured Group is an association of Public Schools in the state of Louisiana who pool their funds to purchase certain types of insurance coverage. The Group was originally formed in May, 2004 providing property and casualty coverage. Each line of coverage is a separate fund within the Group and may have different membership with the Casualty Fund having the broadest membership of seven schools.

Financial Highlights

	Fiscal Year		
	2008	2007	2006
Cash	$12,930	$40,029	$7,816
Accounts receivable	3,000		12,000
Prepaid expenses	417,353	257,509	628,331
Accounts payable			2,000
Unearned premiums	417,353	257,509	628,331
Net assets	15,930	40,029	17,816

The balance sheet for the Group reflects a prepaid insurance premium and unearned revenue in the amount of $417,353 and $257,509 as of June 30, 2008 and 2007, respectively. Because individual members within the Group have policies that expire at dates other than the fiscal year end of the fund (June 30), this amount represents premiums that were paid into the fund that had not yet been earned. Should those policies be canceled as of the fiscal year end of the fund, those unearned premiums would be returned to the members whose policies expire at a date subsequent to the funds year end.

	Fiscal Year		
	2008	2007	2006
Premium income	$2,540,016	$2,834,064	$2,303,084
Premiums ceded and insurance policies purchased	2,540,016	2,834,064	2,303,084
Investment income and change in unsold investment	151	261	131
Administrative fees	18,000	24,000	21,000
Bank charges and other fees	2,250	2,048	3,128
Loss Control Services	40,000		
Net operating income (loss)	(24,099)	22,213	18,003

Premium income and premiums ceded was approximately $2.5 million and $2.8 million for the years 2008 and 2007, respectively. The premium drop of nearly $300,000 was primarily driven by the current conditions in the insurance market whereby premium prices are dropping for the same risk, commonly called a soft market. In 2008, the Group elected to purchase loss control services for its members in an effort to mitigate and control future losses. This was the first year that the board elected to purchase this service which was the main driver in the $46,312 change in net operating income from a $22,213 increase in 2007 versus a decrease of $24,099 in 2008.

Basic Financial Statements

The basic financial statements are presented in accordance with Government Accounting Standards Board (GASB) accounting principles and include the balance sheet, statement of revenues, expenses and changes in net assets, and statement of cash flows.

The balance sheet presents the assets and liabilities of the Group. The difference between total assets and liabilities is represented as net assets and is a useful indicator of the surplus generated by the Group for all years of operation including any dividends that have been distributed to members. The change in net assets can be used as a useful measure of whether the financial position of the Group is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents the results of the Group's operations for its fiscal year. This statement shows the revenues generated along with the associated expenses. The revenues in excess of expenses are represented as net income (loss) and contribute to the change in net assets from one year to another.

The statement of cash flows presents information showing how the Group's cash has changed throughout the fiscal year as a result of its operations.

Louisiana Schools Self-Insured Group
Balance Sheets
June 30, 2008 and 2007

	2008	2007
Assets		
Cash	$12,930	$40,029
Accounts receivable	3,000	
Prepaid expenses	417,353	457,509
Total assets	433,283	497,538
Liabilities		
Unearned premiums	417,353	457,509
Net Assets - Unrestricted	15,930	40,029
Total liabilities and net assets	433,283	497,538

The accompanying notes are an integral part of these statements.

Louisiana Schools Self-Insured Group
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Revenues		
Premiums earned	$2,540,016	$2,834,064
Administrative fees	18,000	24,000
Investment income	151	261
Total revenues	2,558,167	2,858,325
Expenses		
Insurance policies purchased	2,540,016	2,834,064
Bank service charges/other	2,250	2,048
Loss Control Services	40,000	
Total expenses	2,582,266	2,836,112
Net Income (Loss)	(24,099)	22,213
Net Assets (Deficit)		
Beginning of year	40,029	17,816
End of year	15,930	40,029

The accompanying notes are an integral part of these statements.

Louisiana Schools Self-Insured Group
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Premiums received	$2,499,860	$2,663,242
Premiums paid	(2,499,860)	(2,663,242)
Investment activity	151	261
Other receipts	15,000	36,000
Payments for fees and bank charges	(42,250)	(4,048)
Net cash provided by (applied to) operating activities	(27,099)	32,213
Net Increase (Decrease) in Cash	(27,099)	32,213
Cash, beginning of year	40,029	7,816
Cash, end of year	12,930	40,029

	2008	2007
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Net income (loss)	(24,099)	22,213
Adjustments to reconcile net income (loss) to net cash provided by operations		
(Increase) Decrease in accounts receivable	(3,000)	12,000
(Increase) Decrease in prepaid expenses	40,156	170,822
Increase (Decrease) in accounts payable		(2,000)
Increase (Decrease) in unearned premiums	(40,156)	(170,822)
Net cash provided by (applied to) operating activities	(27,099)	32,213

The accompanying notes are an integral part of these statements.

<u>Background information on Public Entity Risk Pools</u>

In April, 1984, the Governmental Accounting Standards Board (GASB) was established as an arm of the Financial Accounting Foundation to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local entities.

In November, 1989, the GASB issued Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" (GASB 10) to establish accounting and financial reporting standards for risk financing and insurance-related activities of state and local governmental entities, including public entity risk pools.

In February, 1996, the GASB issued Statement No. 30 "Risk Financing Omnibus, An Amendment of GASB Statement No. 10".

A "public entity risk pool" is defined in GASB Statement No. 10 as a "cooperative group of governmental entities joining together to finance an exposure, liability, or risk." There are four basic types of public entity risk pools which can serve one or several of the following functions:

<u>Risk-sharing pool</u>

An arrangement by which governments pool risks and funds and share in the control of losses.

<u>Insurance-purchasing pool</u>

An arrangement by which governments pool funds or resources to purchase commercial insurance products.

<u>Banking pool</u>

An arrangement by which monies are made available for pool members in the event of loss on a loan basis.

<u>Claims-servicing or account pool</u>

An arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid.

The Louisiana Schools Self-Insured Group is an insurance-purchasing pool.

Participation in the Group is open to all public school boards, subject to approval by the Louisiana Schools Self-Insured Group's Board of Directors. These public schools joined together to acquire on behalf of the member schools, a program of inter-local risk management to obtain lower costs for that coverage.

Background information on Public Entity Risk Pools (Continued)

Claims-servicing or account pool (Continued)

In 1979, the Louisiana Legislature enacted Louisiana Revised Statutes (LRS) 33:1341 authorizing local governmental subdivisions to administer inter-local risk management agencies (IRMAs). In July 1986, the Louisiana Legislature enacted Louisiana Revised Statutes (LRS)33:3061 specifically allowing school systems to create IRMAs for the purpose of creating and establishing group self insurance funds. Louisiana Schools Self-Insured Group is an IRMA created for Louisiana public K-12 school systems and is incorporated as a non-profit corporation under the laws of the State of Louisiana.

Note 1-Summary of Significant Accounting Policies

A. Basis of Accounting

The Group is considered an enterprise fund and, accordingly, uses the accrual method of accounting.

B. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Group considers all funds on deposit with financial institutions to be cash equivalents.

C. Premium Income

Premiums are recognized as income over the life of the policies as they are earned.

D. Income Taxes

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

E. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2-Cash and Cash Equivalents

At June 30, 2008 and 2007, the carrying amount of cash and cash equivalents was $12,930 and $40,029, and the bank balance was $12,930 and $40,029, respectively, which is collateralized by federal depository insurance.

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October 15, 2008

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

Insurance Committee
Louisiana Schools Self-Insured Group
Baton Rouge, Louisiana

Members of the Committee:

We have audited the financial statements of the

Louisiana Schools Self-Insured Group
Baton Rouge, Louisiana

as of and for the years then ended June 30, 2008, and have issued our report thereon dated October 15, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Schools Self-Insured Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Louisiana Schools Self-Insured Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Louisiana Schools Self-Insured Group's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Louisiana Schools Self-Insured Group's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Louisiana Schools Self-Insured Group's financial statements that is more than inconsequential will not be prevented or detected by the Louisiana Schools Self-Insured Group's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Louisiana Schools Self-Insured Group's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Schools Self-Insured Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as item 2008-01.

This report is intended solely for the information and use of the insurance committee, management, the Louisiana legislative auditor and the Louisiana insurance commissioner and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

Louisiana Schools Self-Insured Group
Summary Schedule of Audit Findings
June 30, 2008

Findings - Financial Statement Audit

2008-01 Billing Error

Condition

When the Group renewals are billed to participants, a $3,000 administrative fee is included. Due to an error in billing, two participants were not charged this fee.

Recommendation

We recommend procedures be instituted to ensure that renewal billings sent to participants reflect the correct amount.

Management's Response

Management for the Group will review all renewal billings before they are sent to participants to ensure that the correct amounts are reflected.

Louisiana Schools Self-Insured Group
Summary Schedule of Prior Year Findings
June 30, 2008

Findings - Financial Statement Audit

None.