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LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY
FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORT
FROM SEPTEMBER 17, 2003 (DATE OF INCEPTION)
TO SEPTEMBER 17, 2004

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 3/23/05

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GRAGSON, CASIDAY & GULLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

January 5, 2005

The Board of Trustees
Louisiana Public School Risk Management Agency

We have audited the accompanying statement of financial position of the Louisiana Public School Risk Management Agency (LARMA) as of September 17, 2004 and the related statements of activities and cash flows for the period then ended. These financial statements are the responsibility of LARMA 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 LARMA as of September 17, 2004 and the changes in its net assets and its cash flows for the year 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 our report dated January 5, 2005 on our consideration of Louisiana Public School Risk Management Agency'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 Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Louisiana Public School Risk Management Agency
January 5, 2005
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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules of ten year claims development information and of changes in claim liabilities by line of coverage are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information 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 financial statements taken as a whole.

Gragson, Casiday & Guillory

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Statement of Financial Position

September 17, 2004

ASSETS	
Cash and cash equivalents	\$ 768,445
Premiums receivable	8,584
Other receivables	<u>14,381</u>
TOTAL ASSETS	<u>\$ 791,410</u>
 LIABILITIES AND NET ASSETS	
Liabilities	
Reserves for unpaid claims and allocated adjustment expenses	\$ 600,900
Accounts payable and accrued expenses	<u>58,450</u>
Total Liabilities	659,350
 Net Assets	 <u>132,060</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 791,410</u>

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

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Statement of Activities

From September 17, 2003 (Date of Inception) to September 17, 2004

Revenues:	
Premiums written and earned	\$ 1,792,387
Less: Reinsurance Premiums	<u>(663,789)</u>
Total revenues	<u>1,128,598</u>
Expenses:	
Claims:	
Claims paid and adjustment expenses-net	36,201
Changes in reserves for unpaid claims and allocated adjustment expenses-net	<u>600,900</u>
Claims incurred-net	<u>637,101</u>
Supporting Services:	
Management fees	125,607
Agent commissions	214,803
Consulting and professional fees	17,241
Bank charges	343
Other	<u>1,443</u>
Total supporting services	<u>359,437</u>
Total Expenses	<u>996,538</u>
Increase in Net Assets	132,060
Net Assets, beginning	<u>-</u>
Net Assets, ending	<u>\$ 132,060</u>

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

GRAGSON, CASIDAY & GUILLORY, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Statement of Cash Flows

From September 17, 2003 (Date of Inception) to September 17, 2004

Cash Flows from Operating Activities:	
Increase in net assets	\$ 132,060
Adjustments to reconcile increase in net assets to net cash from operating activities:	
Changes in operating assets and liabilities:	
Premiums receivable	(8,584)
Other receivable	(14,381)
Reserves for unpaid claims and allocated adjustment expenses	600,900
Accounts payable and accrued expenses	<u>58,450</u>
Net Increase in Cash and Cash Equivalents	768,445
Cash and Cash Equivalents, beginning	<u>-</u>
Cash and Cash Equivalents, ending	<u>\$ 768,445</u>

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

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Notes to Financial Statements

September 17, 2004

NOTE A – ORGANIZATION

The Louisiana Public School Risk Management Agency (LARMA), a public entity risk pool, was created effective September 17, 2003 under the provisions of the Louisiana Inter-Local Risk Management Agency Statutes (LRS 33:1341 et al). The purpose of LARMA is to provide member school districts insurance coverage. The by-laws of LARMA, as supplemented by the Interlocal Agreement, set forth the various procedures, which are to be followed in the organization, administration and operation of LARMA.

LARMA provides coverage for general liability, automobile liability and physical damage, and errors and omissions. Members' deductibles are set for each line of coverage based on a case by case determination. LARMA uses reinsurance agreements to reduce its exposure to large losses on these types of coverages.

A summary of the risk amounts retained by LARMA, by line of coverage, is as follows:

<u>Line of Coverage</u>	<u>Retention</u>
General liability, automobile liability, auto physical damage and errors and omission	\$150,000 self-insured retention, \$850,000 per occurrence reinsurance, \$1,000,000 of aggregate stop loss reinsurance coverage after exhaustion of loss fund.

The responsibility for managing the affairs of LARMA rests with the Board of Trustees consisting of five to nine members elected by a majority vote at the annual meeting. Trustees are elected for terms of three years and may be re-elected to any number of successive terms.

Willis Pooling serves as the administrator for LARMA. The administrator's responsibilities include, but are not limited to, underwriting, policy issuance, policy holders' services and claims management services. In addition, the administrator oversees and manages the claim services and uses professional adjustment firms in Louisiana for field services.

Alternative Services Concepts, LLC is responsible for preparation of monthly financial statements.

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Notes to Financial Statements

September 17, 2004

NOTE A – ORGANIZATION-CONTINUED

At September 17, 2004, twenty-four Louisiana school districts were members in LARMA.

LARMA members are subject to supplemental assessments in the event of deficiencies. If the assets of LARMA were to be exhausted, members would be responsible for LARMA liabilities. LARMA also may return surpluses to members.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies is set forth below:

Cash and Cash Equivalents

For purposes of the statement of cash flows, LARMA considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Premiums Earned

Premiums are recognized on a monthly prorata basis over the term of the policy. Premiums applicable to the unexpired terms of the policies in force are reported as unearned at the balance sheet date.

Reserves for Unpaid Claims and Allocated Adjustment Expenses

LARMA establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. 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

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Notes to Financial Statements

September 17, 2004

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

factors. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made.

Excess Insurance

LARMA uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. This is commonly referred to as reinsurance ceded. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of LARMA as direct insurer of the risk reinsured. LARMA does not report reinsured risk as liabilities unless it is probable that those risks will not be covered by reinsurers.

Income Taxes

Income of LARMA is excludible from gross income under Section 115 of the Internal Revenue Code and is therefore not subjected to either federal or state income taxes.

NOTE C - CASH AND CASH EQUIVALENTS

The bank balances of \$768,445 have been deposited in public depositories, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC) and the excess of \$668,445 is unsecured.

NOTE D – RESERVES FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

As discussed in Note B, LARMA established a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses and is net of any probable reinsurance coverage.

Management believes that the reserves for unpaid losses are adequate to cover the ultimate cost of reported and unreported claims. However the ultimate cost may be more or less than the estimated liability. The reserves, which have been estimated by LARMA's independent actuary and LARMA claims organization, are as follows:

Case Reserves	\$ 102,713
Reserve for losses incurred but not reported	<u>498,187</u>
Total reserves for unpaid claims and claim adjustment expenses at September 17, 2004	<u>\$ 600,900</u>

GRAGSON, CASIDAY & GUILLORY, L.L.P.
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LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Notes to Financial Statements

September 17, 2004

NOTE D – RESERVES FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES-
CONTINUED

The following represents changes in the reserves for unpaid claims and claim adjustment expenses for LARMA during the period:

Unpaid claims and claim adjustment expenses at September 17, 2003	\$ <u> -</u>
Incurred claims and claim adjustment expenses:	
Provision for insured events of the current year	637,101
Increase (Decrease)-net in provision for insured events of prior years	<u> -</u>
Total incurred claims and claim adjustment expenses	<u>637,101</u>
Less claim payments-net:	
Claims and claim adjustment expenses attributable to insured events of the current year	36,201
Claims and claim adjustment expenses attributable to insured events of prior years	<u> -</u>
Total payments-net	<u>36,201</u>
Total unpaid claims and claim adjustment expenses at September 17, 2004	<u>\$ 600,900</u>

SUPPLEMENTAL INFORMATION

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Schedule of Ten Year Claims Development Information
September 17, 2004

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Premium Revenue:										
Earned	N/A	\$ 1,792,387								
Ceded										(663,789)
Net Earned										<u>1,128,598</u>
Administrative Expenses										359,437
Reserve for Unallocated Adjustment Expenses										-
Estimated Incurred Claims, End of Policy Year (or Earliest Year Available)										637,101
Cumulative Paid Claims As of: End of Policy Year										36,201
Cumulative Incurred Claims As of: End of Policy Year										637,101
Increase (Decrease) in Cumulative Incurred Claims From End of Policy Year										-

N/A = Not in Operations

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Schedule of Changes in Claim Liabilities by Line of Coverage

From September 17, 2003 (Date of Inception) to September 17, 2004

	<u>Total</u>
Unpaid Claim Liabilities, September 17, 2003	\$ <u> -</u>
Incurred Claims:	
Provision for Insured Events of Current Year	637,101
Increase (Decrease)-net in Provision for Insured Events of Prior Years	<u> -</u>
Increase in Incurred Claims-net:	637,101
Less Claim Payments-net:	
Payment-net on Claims for Insured Events of Current Year	36,201
Payments-net on Claims for Insured Events of Prior Years	<u> -</u>
Total Payments-net	<u> 36,201</u>
Unpaid Claim Liabilities, September 17, 2004	<u>\$ 600,900</u>



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

January 5, 2005

The Board of Trustee
Louisiana Public School Risk Management Agency

We have audited the financial statements of the Louisiana Public School Risk Management Agency as of and for the period ended September 17, 2004, and have issued our report thereon dated January 5, 2005. 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 Louisiana Public School Risk Management Agency'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 is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Public School Risk Management Agency'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 operations that we consider to be material weaknesses.

Louisiana Public School Risk Management Agency
January 5, 2005
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This report is intended solely for the information and use of the Louisiana Public School Risk Management Agency's management and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Gragson, Casiday & Guillory

LOUISIANA PUBLIC SCHOOL RISK MANAGEMENT AGENCY

Schedule of Findings and Questioned Costs

Period Ended September 17, 2004

I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weaknesses(es) identified? yes no
- Reportable condition(s) identified that are
not considered to be material weakness(es)? yes none reported

Noncompliance material to financial
statements noted? yes no

II - Financial Statement Findings

- None

III - Federal Award Findings and Questioned Costs

- N/A