

**LOUISIANA SHERIFFS' AUTOMOBILE
RISK PROGRAM**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

June 30, 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 8/18/04

Greg A. Kennedy, CPA (APAC)

LOUISIANA SHERIFFS' AUTOMOBILE RISK PROGRAM
Baton Rouge, Louisiana

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Greg A. Kennedy, CPA (APAC)

GREG A. KENNEDY, CPA
(A Professional Accounting Corporation)

INDEPENDENT AUDITOR'S REPORT

Board of Managers
Louisiana Sheriffs' Automobile Risk Program

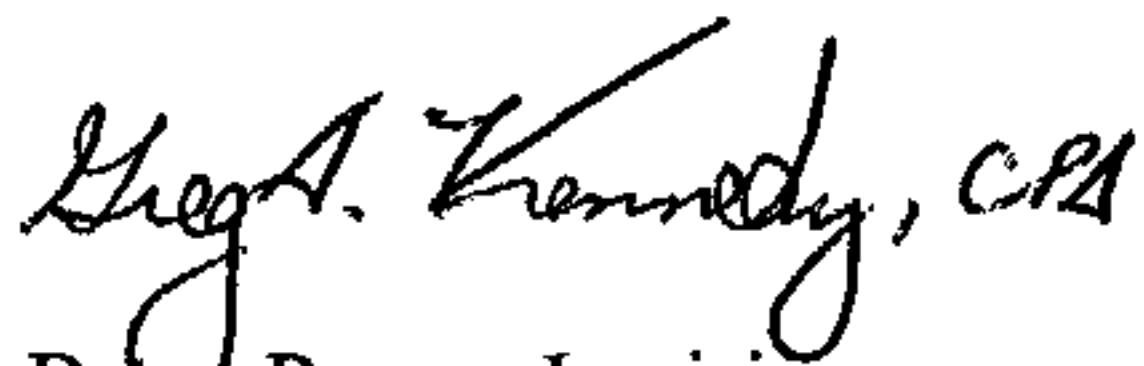
I have audited the accompanying statement of financial position of the Louisiana Sheriffs' Automobile Risk Program as of June 30, 2004, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Program's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Louisiana Sheriffs' Automobile Risk Program as of June 30, 2004, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued a report dated July 29, 2003 on my consideration of the Program's internal control structure and a report dated July 29, 2004 on its compliance with laws and regulations.

The Program has a cumulative deficit as of June 30, 2004. Management's plans regarding this matter are described in Note 2 to the financial statements.


Baton Rouge, Louisiana
July 29, 2004

LOUISIANA SHERIFFS' AUTOMOBILE RISK PROGRAM
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004

(With Comparative Data for 2003)

ASSETS	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 26	\$ 760
Investments	<u>0</u>	<u>0</u>
TOTAL ASSETS	\$ <u>26</u>	\$ <u>760</u>
LIABILITIES AND NET DEFICIT		
LIABILITIES		
Claims reserves	\$ 100,000	\$ 200,232
Reserve for unallocated loss adjustment expenses	<u>0</u>	<u>0</u>
TOTAL LIABILITIES	100,000	200,232
NET DEFICIT		
Unrestricted-operating	<u>(99,974)</u>	<u>(199,472)</u>
TOTAL LIABILITIES AND NET DEFICIT	\$ <u>26</u>	\$ <u>760</u>

The accompanying notes are an integral part of these statements.

LOUISIANA SHERIFFS' AUTOMOBILE RISK PROGRAM
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

(With Comparative Data for 2003)

	2004	2003
REVENUE AND OTHER SUPPORT		
Membership contributions:		
Liability premiums	\$ 0	\$ 0
Physical damage premiums	0	0
Investment income	0	0
Total revenue and other support	0	0
EXPENSES		
Program expenses:		
Claims and claim expenses paid on current losses	0	546
Established claims reserves	0	0
Adjustment to prior years' claim reserves	(100,232)	0
Unallocated loss adjustment expense (credit)	0	0
Total program expenses	(100,232)	546
Supporting services:		
Administrators fee	0	0
LSA administration fee	0	0
Other general and administrative	734	0
Total supporting services	734	0
Total expenses	(99,498)	546
Change in net deficit	99,498	(546)
NET DEFICIT		
June 30, 2003	(199,472)	(198,926)
June 30, 2004	\$ (99,974)	\$ (199,472)

The accompanying notes are an integral part of these statements.

LOUISIANA SHERIFFS' AUTOMOBILE RISK PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

(With Comparative Data for 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	\$ 99,498	\$ (546)
Adjustments to reconcile change in net deficit to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Claims reserve	(100,232)	0
Reserve for unallocated loss adjustment expenses	<u>0</u>	<u>0</u>
Net cash used by operating activities	<u>(734)</u>	<u>(546)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in investments	<u>0</u>	<u>0</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(734)	(546)
CASH AND CASH EQUIVALENTS:		
June 30, 2003	<u>760</u>	<u>1,306</u>
June 30, 2004	<u>\$ 26</u>	<u>\$ 760</u>

The accompanying notes are an integral part of these statements.

LOUISIANA SHERIFFS' AUTOMOBILE RISK PROGRAM
NOTES TO FINANCIAL STATEMENTS

NOTE 1- DESCRIPTION OF PROGRAM

The Louisiana Sheriffs' Automobile Risk Program (LASHARP), a public entity risk pool, was created effective July 1, 1989. The purpose of the Program is to provide members of the Louisiana Sheriffs' Association automobile liability insurance.

The Program retains the first \$100,000/\$300,000/\$100,000 layer of exposure and affords its individual members the option of purchasing excess automobile liability coverage through outside underwriters for claims in excess of the amount retained. In addition, the program provides coverage for medical payments coverage with a \$2,000 limit and uninsured motorists coverage at various limits.

Individual members' optional excess automobile liability coverage is offered for the following limits:

- o \$300,000 combined single limit
- o \$350,000 combined single limit
- o \$500,000 combined single limit
- o \$1,000,000 combined single limit

The responsibility for managing the affairs of LASHARP rests with the Board of Managers consisting of eight Sheriffs elected by a majority vote of the Sheriffs in each Congressional District. Managers are elected for staggered terms of four years and may be re-elected to any number of successive terms.

Mor-Tem Systems, Inc. serves as the administrator for the Program. The administrators responsibilities include, but are not limited to, underwriting, policy issuance, policy holder 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.

The Louisiana Sheriffs' Association is in charge of the accounting and bookkeeping functions in addition to various administrative duties.

NOTE 2- MANAGEMENT'S PLANS FOR FUTURE OPERATIONS

The administrator has revised the methodology for establishing claims reserves and has implemented a diary system to facilitate proper claims review. In an effort to control litigation costs, attorneys were given a structured set of guidelines and all attorney bills are audited monthly.

Management of the Program believes that steps to revise the Program's operating and financial requirements such as increasing future premium contributions and the continuance of risk prevention programs will be sufficient to provide the Program with the ability to meet its present and future obligations and to eliminate the Program's deficit.

NOTE 3- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

In 1996, the Program elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Program is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Program is required to present a statement of cash flows.

Estimates

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

Investments

The Program accounts for its investments under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and all investments in debt securities. These investments are to be classified into the following categories:

- 1) Held-to-maturity securities reported at amortized cost;
- 2) Trading securities reported at fair value with unrealized gains and losses included in earnings; or
- 3) Securities available-for-sale reported at fair value with unrealized gains and losses reported as separate component of fund balance.

The Program's investments are classified and accounted for as held-to-maturity. Gains and losses on the ultimate sale of securities are determined using the specific identification method. Premiums and discounts are amortized into investment income using a level yield method.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Program considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Reserve for Unallocated Loss Adjustment Expenses

The reserve for unallocated loss adjustment expense represents the estimated cost to be incurred with respect to the settlement of claims in process and claims incurred but not reported. Management estimates this liability at each year-end based upon cost estimates. The change in the liability each year is reflected in current earnings.

Excess Insurance

The Program purchases excess insurance only for individual members who elect to acquire the excess coverage to reduce their exposure to large losses. The purpose of excess insurance is to transfer a portion of the risk from the insured to the excess insurer. The Program does not report liabilities which are covered by excess insurance.

Income Taxes

No provision for income taxes has been made since the receipts of the Program are considered public monies which are believed to be exempt from Federal and State income taxes. The Program has not requested nor has it received a letter of determination from the Internal Revenue Service advising it that it qualifies as a not-for-profit entity under Section 501 of the Internal Revenue Code.

NOTE 4- RESERVES FOR CLAIMS

The Program utilized the services of an independent actuarial firm to determine the estimated reserves for claims as of June 30, 2004 and 2003.

NOTE 5- UNPAID CLAIMS LIABILITIES

The Program establishes a liability for reported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

NOTE 6- EXCESS INSURANCE AND OTHER

A contingent liability exists which could become a liability in the unlikely event that all or any of the insurance companies which provide excess insurance for the Program cancel, fail to renew or become unable to meet their obligations under the excess insurance contracts. In the event of such occurrence, the Program's members could be responsible for such defaulted amounts. In addition, the Program's members could be responsible for the portion of the Program's retention of claims if the Program is unable to meet its obligations.

NOTE 7- FAIR VALUES OF FINANCIAL INSTRUMENTS

The Program has a number of financial instruments, none of which are held for trading purposes. The Program estimates that the fair value of all financial instruments, with the exception of investments (see Note 4), at June 30, 2004 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Program could realize in a current market exchange.

NOTE 8- CASH AND CASH EQUIVALENTS

As of June 30, 2004 and 2003, respectively, the Program had cash and cash equivalents (bank balances) of \$26 and \$760 as follows:

	<u>2004</u>	<u>2003</u>
Demand deposits	\$ <u>26</u>	\$ <u>760</u>

Cash and cash equivalents of deposit balances at June 30, 2003 and 2002, are collateralized as follows:

Bank balances	\$ <u>26</u>	\$ <u>760</u>
Federal deposit insurance and other security	\$ <u>26</u>	\$ <u>760</u>
Unsecured portion	\$ <u>-</u>	\$ <u>-</u>

NOTE 9- LITIGATION

At June 30, 2004, the Program was not involved in litigation either as plaintiff or defendant except for litigation involving claims in the ordinary course of its operations.

**OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Greg A. Kennedy, CPA (APAC)

GREG A. KENNEDY, CPA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
STRUCTURE BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Officers and Members of the Executive Board
Louisiana Sheriffs' Automobile Risk Program

I have audited the financial statements of Louisiana Sheriffs' Automobile Risk Program, as of June 30, 2004, and for the year then ended, and have issued my report thereon dated July 29, 2004.


I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Louisiana Sheriffs' Automobile Risk Program, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing my audit of the financial statements of Louisiana Sheriffs' Automobile Risk Program, for the year ended June 30, 2004, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and I assessed control risk in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, I do not express such an opinion.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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. I noted no matters involving the internal control structure and its operations that I consider to be material weaknesses as defined above.

This report is intended for the information of the Officers and Members of the Executive Board of the Louisiana Sheriffs' Automobile Risk Program, and interested state and federal agencies. However, this report is a matter of public record and its distribution is not limited.


Baton Rouge, Louisiana
July 29, 2004

GREG A. KENNEDY, CPA
(A Professional Accounting Corporation)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Officers and Members of
the Executive Board
Louisiana Sheriffs' Automobile Risk Program

I have audited the financial statements of Louisiana Sheriffs' Automobile Risk Program, as of June 30, 2004, and for the year then ended, and have issued my report thereon dated July 29, 2004.

I conducted my audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States; and the Louisiana Governmental Audit Guide, issued by the Society of Louisiana Certified Public Accountants and the Louisiana Legislative Auditor. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the *general-purpose financial statements are free of material misstatement*.

Compliance with laws, regulations and contracts applicable to Louisiana Sheriffs' Automobile Risk Program, is the responsibility of Louisiana Sheriffs' Automobile Risk Program's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Louisiana Sheriffs' Automobile Risk Program's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion.

The results of my tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of Officers and Members of the Executive Board of the Louisiana Sheriffs' Automobile Risk Program, and interested State and Federal agencies. However, this report is a matter of public record and its distribution is not limited.



Baton Rouge, Louisiana
July 29, 2004