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**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA**

**General Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 2001
With Supplemental Information**

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 9-19-01

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
3132 VALLEY CREEK DRIVE
BATON ROUGE, LOUISIANA 70808
(225) 925-3870

GOVERNING BOARD

<u>Member</u>	<u>Representing</u>
Charles Healey	District 1 - Dealer
Hoytt Adcock	District 2 - RV Dealer
M. J. Smiley	District 3 - Dealer
James Cook	District 4 - Dealer
Marvin Ramsey	District 5 - Dealer
Michael Roberts	Motorcycle Dealer Manufacturer
Bernhardt Hunter	Shredder/Scrap Dealer Marine Dealer
Henry Smith	Dismantler Consumer Consumer

John M. Torrance, Executive Director

TABLE OF CONTENTS

	<u>Note</u>	<u>Page</u>
Independent Auditors' Report on the Financial Statements		1
General Purpose Financial Statements:		
Combined Balance Sheet - Governmental Fund Type and Account Groups		3
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual - Governmental Fund Type - General Fund		4
Notes to the Financial Statements -		
Introduction	1	5
Summary of Significant Accounting Policies	2	5
Basis of Presentation		5
Reporting Entity		5
Fund Accounting		6
Basis of Accounting		6
Budget Practices		7
Encumbrances		7
Cash and Investments		7
Inventories		8
Fixed Assets		8
Compensated Absences		8
Fund Equity		8
Total Column on Balance Sheet		8
Cash, Cash Equivalents, and Investments	3	8
Changes in General Fixed Assets	4	9
Changes in General Long-Term Obligations	5	9
Pension Plan	6	9
Postemployment Health Care and Life Insurance Benefits	7	10
Risk Management	8	10
Estimates	9	10
Litigation and Claims	10	10
Uncertainty	11	11
Subsequent Event	12	11
Federal Financial Assistance	13	12
Compensation Paid to Board Members	14	12
Changes in Surety Bond Claims (Agency) Fund	15	13
GASB 34 Implementation	16	13
Other Report Required by <i>Government Auditing Standards</i>:		
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		15
Schedule of Findings		17
Management's Corrective Action Plan		21
Other Report Required by Division of Administration:		
Independent Auditor's Report on Annual Financial Report to the Louisiana Division of Administration		23
Annual Financial Report		24

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board Members of
Louisiana Used Motor Vehicle and Parts Commission
Department of Economic Development
State of Louisiana
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statements of the LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION, a component unit of the State of Louisiana, as of and for the year ended June 30, 2001, as listed in the Table of Contents. These general purpose financial statements are the responsibility of management of the Louisiana Used Motor Vehicle and Parts Commission. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the accompanying general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Used Motor Vehicle and Parts Commission as of June 30, 2001, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2001, on our consideration of the Louisiana Used Motor Vehicle and Parts Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

We have also issued our report dated August 9, 2001, on our consideration of the Louisiana Used Motor Vehicle and Parts Commission's annual financial report to the Louisiana Division of Administration as of and for the year ended June 30, 2001.

As discussed in Note 11 to the general purpose financial statements, the State of Louisiana, Office of Inspector General issued a report dated April 18, 2001, questioning salary payments to the former assistant director because the assistant director was unable to adequately verify working more than two and a half days weekly while being paid on the basis of a 40-hour week. Subsequent to the balance sheet date as more fully explained in Note 12 to the general purpose financial statements, the Louisiana Board of Ethics has leveled charges against both the executive director and former assistant director; however, no provision has been made in the general purpose financial statements to reflect these charges.

Leroy J. Chustz

Certified Public Accountant, APAC

Beverly A. Ryall

Certified Public Accountant

August 9, 2001

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
COMBINED BALANCE SHEET
GOVERNMENTAL FUND TYPE AND ACCOUNT GROUPS
JUNE 30, 2001

	Governmental Fund Type	Account Groups		Totals (Memorandum) Only)
	General	General Fixed Assets	General Long-Term Obligations	
ASSETS				
Cash and cash equivalents	\$ 516,703			\$ 516,703
Investments	989,985			989,985
Receivables - hearings	16,040			16,040
Fixed assets		\$ 547,877		547,877
Amount to be provided for retirement of general long-term obligations			\$ 69,688	69,688
TOTAL ASSETS	\$ 1,522,728	\$ 547,877	\$ 69,688	\$ 2,140,293
LIABILITIES AND FUND EQUITY				
<i>Liabilities:</i>				
Accounts payable	\$ 7,223			\$ 7,223
Payroll deductions and accruals	9,878			9,878
Accrued compensated absences			\$ 69,688	69,688
Total Liabilities	17,101		69,688	86,789
<i>Fund Equity:</i>				
Investment in general fixed assets		\$ 547,877		547,877
Fund balances - Unreserved - undesignated	1,505,627			1,505,627
Total Fund Equity	1,505,627	547,877		2,053,504
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,522,728	\$ 547,877	\$ 69,688	\$ 2,140,293

The accompanying notes are an integral part of this statement.

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GOVERNMENTAL FUND TYPE - GENERAL FUND
YEAR ENDED JUNE 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Use of money and property -			
Interest earnings	\$ 82,965	\$ 83,483	\$ 518
Licenses, permits, and fees -			
Licenses	1,057,835	1,050,195	(7,640)
Enforcement actions	13,674	19,467	5,793
Trade show fees		4,600	4,600
Non-sufficient funds fees	800	775	(25)
Miscellaneous -			
Copies, labels, and lists	1,993	1,945	(48)
Other	2,360	2,360	
Total Revenues	1,159,627	1,162,825	3,198
Expenditures:			
Current -			
Personal services -			
Commissioners per diem	6,975	6,975	
Salaries	561,897	559,482	2,415
Employee benefits	106,666	107,142	(476)
Travel	12,183	11,732	451
Operating services	133,971	134,146	(175)
Supplies	24,602	24,675	(73)
Professional services	86,078	82,170	3,908
Capital outlays	39,022	39,022	
Total Expenditures	971,394	965,344	6,050
Excess of Revenues (Expenditures)	188,233	197,481	9,248
Fund Balance - July 1, 2000	1,312,450	1,308,146	(4,304)
FUND BALANCE - JUNE 30, 2001	\$ 1,500,683	\$ 1,505,627	\$ 4,944

The accompanying notes are an integral part of this statement.

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - INTRODUCTION

The Louisiana Used Motor Vehicle and Parts Commission (the Board) was created by the Louisiana State Legislature under the provisions of Louisiana Revised Statute 32:772. The Board is under the control of the Department of Economic Development and a component unit of the State of Louisiana and is an integral part of such reporting entity. The Board, which is composed of twelve (12) members appointed by the Governor of Louisiana for a term coterminous with that of the governor making the appointment with the chairman being appointed by the governor. The Board consists of:

1. Five members shall be licensed used motor vehicle dealers, one selected from each Public Service Commission district.
2. One member shall be a licensed automotive dismantler or parts recycler.
3. Two members shall be consumers selected from the state at large.
4. One member shall be a licensed motorcycle dealer.
5. One member shall be a licensed marine dealer.
6. One member shall be a representative of the recycling industry.
7. One member shall be a representative of the manufacturer licensed by the commission.

As authorized by Louisiana Revised Statute 32:772 C.(1), each member of the Board shall receive \$75.00 for each and every day actually and necessarily spent in attending the meetings of the commission, including any commission committee meetings, and shall be reimbursed for subsistence and traveling expenses incurred in the performance of their duties hereunder as provided by the commissioner of the Division of Administration. Such payments shall not exceed the sum of \$1,800 per annum to any one person.

The Board is responsible for licensing and regulating used motor vehicle dealers, salesmen, automotive dismantlers, auto crushers, parts recyclers, and marine dealers, as well as hearing complaints on used vehicles and parts.

The Board's office is located in Baton Rouge, Louisiana, and its operations are funded entirely through annual self-generated revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The Codification of Governmental Accounting and Financial Reporting Standards and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The Louisiana Used Motor Vehicle and Parts Commission prepares its financial statements in accordance with the standards established by the GASB.

Reporting Entity

GASB Codification Section 2100 and GASB Statement 14, "The Financial Reporting Entity," have defined the governmental reporting entity to be the State of Louisiana. The Louisiana Used Motor Vehicle and Parts Commission is considered a component unit of the State of Louisiana because the state exercises oversight responsibility in that the governor appoints the board members, and public service is rendered within the state's boundaries.

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS**

The accompanying general purpose financial statements present information only as to the transactions of the Louisiana Used Motor Vehicle and Parts Commission, a component unit of the State of Louisiana.

Annually the State of Louisiana issues a general purpose financial statement which includes the activity contained in the accompanying financial statement. The general purpose financial statement is issued by the Louisiana Division of Administration-Office of Statewide Reporting and Accounting Policy and audited by the Louisiana Legislative Auditor.

Fund Accounting

The accounts of the Louisiana Used Motor Vehicle and Parts Commission are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Revenues are accounted for in these funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The funds presented in the accompanying financial statements are described as follows:

General Fund

The General Fund is the general operating fund of the Board and is classified as a governmental fund. It accounts for the Board's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt.

Surety Bond Claims Fund (Agency Fund)

Pursuant to LSA-R.S. 32:4(A) and (B) and 32:774(G) and (H), licensed used motor vehicle dealers post a \$10,000 surety bond payable through the commission to indemnify persons who suffer a loss as a result of any violation of the provisions of law and for the proper disposition of all taxes and registration fees. The Surety Bond Claims Fund accounts for the proceeds received from bonding companies and subsequently paid to applicable claimants.

The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The activity of the Surety Bond Claims Fund for the year ended June 30, 2001 is shown on Note 15.

Account Groups

The Board has two account groups which are not "funds". They are concerned only with the measurement of financial position, not with measurement of results of operations.

Fixed assets used in the governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds.

Long-term obligations expected to be financed from governmental funds are accounted for in the General Long-Term Obligation Account Group, not in the governmental funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS

focus applied. The modified accrual basis of accounting is used by the General Fund. The General Fund uses the following practices in recording revenues and expenditures:

Revenues

Licenses fees are recorded when they are considered measurable and available for use.

Interest income on time deposits is recorded when the income is earned.

Substantially all other revenues are recorded when they become available.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for accumulated annual and sick leave, which is recognized when paid.

Budget Practices

In accordance with LSA-R.S. 39:1332-1342, the Louisiana Used Motor Vehicle and Parts Commission is required to submit a copy of its proposed budget for the upcoming fiscal year by the first day of the preceding January to the Joint Legislative Committee on the Budget, to each chairman of a standing committee of the Legislature having jurisdiction, to the Legislative Auditor, and the Legislative Fiscal Office.

The Board prepares its budget on the modified accrual basis of accounting which is adopted by the Board in November. All appropriations contained in the budget lapse at year end.

Budgeted amounts included in the accompanying financial statements include the original adopted budget. Formal budget integration is employed as a management control device during the year.

Encumbrances

Encumbrance accounting is used when purchase orders are recorded in order to reserve that portion of the applicable appropriation. The Board does not follow the encumbrance method of accounting.

Cash and Investments

Under state law, the Board may deposit funds with a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the Board may invest in time certificates of deposit of state banks organized under Louisiana law or of any other state of the United States, or under the laws of the United States, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and share certificate accounts of federally or state chartered credit unions.

Cash and cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less.

Investments are limited by R.S. 33:2955 and the Board's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS

Inventories

Inventories for supplies are immaterial and are recorded as expenditures when purchased.

Fixed Assets

Fixed assets are recorded as expenditures at the time purchased and the related assets are capitalized (reported) in the general fixed assets account group. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost.

Compensated Absences

Employees of the Board earn and accumulate vacation and sick leave at varying rates, depending upon their years of service. The amount of vacation and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused vacation leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused vacation leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused vacation leave payable at June 30, 2001, calculated in accordance with Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$69,688.

Fund Equity

The unreserved-undesignated fund balances for governmental funds represent the amount available for budgeting future operations. Reservations and designations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

Total Column on Balance Sheet

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 3 - CASH, CASH EQUIVALENTS, and INVESTMENTS

At June 30, 2001, the book balances of cash, cash equivalents, and investments are as follows:

Petty cash	\$	500
Interest bearing demand deposits		516,203
Time certificates of deposit		989,985
		989,985
Total	\$	1,506,688

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. 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. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2001, the Board has \$1,554,818 in deposits (collected bank balances). These deposits are secured from risk by \$991,985 of federal deposit insurance and \$562,833 of pledged securities held by the custodial bank in the name of the fiscal agent bank (GASB Category 3).

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement No. 3, R.S. 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the Board that the fiscal agent has failed to pay deposited funds upon demand.

NOTE 4 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land and building	\$ 200,000			\$ 200,000
Furniture and equipment	341,677	\$ 39,022	\$ 32,822	347,877
Total	<u>\$ 541,677</u>	<u>\$ 39,022</u>	<u>\$ 32,822</u>	<u>\$ 547,877</u>

NOTE 5 - CHANGES IN GENERAL LONG-TERM OBLIGATIONS

General long-term obligations consist entirely of compensated absences. The following is a summary of the long-term obligation transactions for the year ended June 30, 2001.

Balance, July 1, 2000	\$ 65,219
Additions	4,469
Deletions	
Balance, June 30, 2001	<u>\$ 69,688</u>

NOTE 6 - PENSION PLAN

Plan Description

The majority of employees of the Board are members of the Louisiana State Employees Retirement System ("System"), a multiple-employer, public employee retirement system (PERS) controlled and administered by a separate board of trustees.

All full time employees are eligible to participate in the System. Benefits vest with ten years of service. At retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5% of their highest consecutive 36 month average salary multiplied by their years of credited service. Vested employees may retire at (a) any age with thirty years of service, (b) age 55 with twenty-five years of service. The System also provides death and disability benefits. Benefits are established by state statute. The system issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS**

obtained by writing to the Louisiana State Employees' Retirement System; P. O. Box 44213; Baton Rouge, LA 70804.

Funding Policy

Plan members are required by state statute to contribute 7.5% of their annual covered salary and employers are required to contribute at an actuarially determined rate. The current employer rate is 13.0% of annual covered payroll. The contribution requirements of plan members and employers are established by, and may be amended by, state law. As required by state law, the employer contributions are determined by actuarial valuation and are subject to change each year based on the results of the valuation for the prior fiscal year. The Board's contributions to the System for the years ended June 30, 2001, 2000, and 1999, were \$61,552, \$59,069, and \$56,619, respectively, and were equal to the required contributions for each year.

**NOTE 7 - POSTEMPLOYMENT HEALTH CARE
and LIFE INSURANCE BENEFITS**

The Board provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the Board's employees become eligible for these benefits if they reach normal retirement age while working for the Board. These benefits for retirees and similar benefits for active employees are provided through the State Employees Group Benefits Program whose monthly premiums are paid jointly by the employee and by the Board. The Board recognizes the cost of providing these benefits as an expenditure when paid during the year. For the year ended June 30, 2001, the cost of these benefits for two retirees and one surviving spouse totaled \$5,192.

NOTE 8 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Board purchases insurance coverage through the State Office of Risk Management, which is responsible for negotiating, compromising and settling all claims including all tort claims against the Board.

NOTE 9 - ESTIMATES

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

NOTE 10 - LITIGATION AND CLAIMS

The State of Louisiana, Division of Administration, Office of Risk Management has reported two pending litigated cases:

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS

Mark Provost - 96G0522PROVO

It is the opinion of the Attorney General's Office that the state has no liability, there has been no activity with the court since October 1999, and if this continues, the case will abandon in October 2002.

Harvey Crittenden, Jr. - 98G0423CRITT

Neither the Office of Risk Management nor the Attorney General's Office feels that the State should settle. Therefore, a trail date should be set in the near future.

NOTE 11 - UNCERTAINTY

The Office of State Inspector General for the State of Louisiana conducted an investigation into the employment of Jon Witherington, assistant director of the Louisiana Used Motor Vehicle and Parts Commission. The conclusion of that investigation found the following:

1. The assistant director could not verify working more than 20 hours a week while being paid to work 40. This practice took place for a 33 month period.
2. The assistant director falsified attendance and payroll records when he signed that he was present when he was actually absent 144 hours for medical reasons and 16 hours for personal reasons, from June 1998 through September 2000.
3. The executive director did not exercise proper supervision over the assistant director.

The Office of State Inspector General made the following recommendations:

1. This report should be sent to the appropriate authorities.
2. The Commission should correct the assistant director's leave balance with respect to the 144 hours sick and 16 hours annual for absences not charged.
3. The Commission should correct the assistant director's leave balance with respect to the 68 hours annual and 68 hours sick because the wrong factor was used to calculate his earnings.
4. The Commission should review this report and take appropriate action.

Management responded to the findings, the assistant director was terminated, and the matter was under review by the Louisiana Board of Ethics at June 30, 2001. As to recommendations, management is awaiting the opinion of the Louisiana Board of Ethics before acting on the estimated \$56,667 in inadequately documented time paid during the 33 months in question and the accumulated annual leave of 237 hours or \$5,697 is being reported as an accrued liability in the general long-term obligations. Since the assistant director has been terminated, the accumulated sick leave has been cancelled.

NOTE 12 - SUBSEQUENT EVENT

The Louisiana Board of Ethics at its July 19, 2001, meeting, ordered that a public hearing (no date has been set) be conducted for the purpose of exploring the following charges:

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS**

Jon Witherington

That Jon Witherington, as the assistant director of the Louisiana Used Motor Vehicle and Parts Commission, may have violated Section 1161F of the Code of Governmental Ethics (LSA-R.S. 42:1161F) by being on the payroll of the Louisiana Used Motor Vehicle and Parts Commission as its assistant director and not rendering services for which he was being paid on or about January 1998 to October 2000.

John M. "Jack" Torrance

That Jack Torrance, as the executive director of the Louisiana Used Motor Vehicle and Parts Commission, may have violated Section 1161F of the Code of Governmental Ethics (LSA-R.S. 42:1161F) by having Jon Witherington on the payroll as the assistant director of the Louisiana Used Motor Vehicle and Parts Commission who did not render services for which he was being paid on or about January 1998 to October 2000.

NOTE 13 - FEDERAL FINANCIAL ASSISTANCE

The Board received no federal funds during the fiscal year ended June 30, 2001.

NOTE 14 - COMPENSATION PAID TO BOARD MEMBERS

The schedule of per diem payments to Board Members is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature. As authorized by Louisiana Revised Statute 32:772, each member of the Board shall be reimbursed when actually in attendance at a board meeting or when required to travel for the official authorized business of the board, and such reimbursement shall not exceed \$75.00 per day, not to exceed \$1,800 per annum to any one person, plus actual expenses.

<u>Commissioner</u>	<u>Meetings</u>	<u>Amount</u>
Hoytt Adcock	3	\$ 0 (Waived)
James Cook	8	600
Samuel L. Davidson	5	375
Richard Friederichsen	8	600
Jay Galland	2	0 (Waived)
Jim Gauthier	6	450
Charles Healey	10	750
Bernhardt Hunter	2	150
Francis A. Landry	11	825
Gerald Link	8	600
Lee A. Meyer	2	150
Doug Miller	1	75
Marvin Ramsey	11	825
Mike Roberts	11	0 (Waived)
M. J. Smiley, Jr.	9	675
Henry A. Smith	12	900
Total		<u>\$ 6,975</u>

LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF ECONOMIC DEVELOPMENT
STATE OF LOUISIANA
NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 - CHANGES IN SURETY BOND CLAIMS (AGENCY) FUND

Balance, July 1, 2000	\$	0
Add proceeds from bonding company		39,047
Less payments to claimants		<u>(39,047)</u>
Balance, June 30, 2001	\$	<u>0</u>

NOTE 16 - GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board (GASB) issued Statement Number 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", in June 1999. The date of implementation is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999 (earlier application is encouraged). Since these financial statements will be included in the Comprehensive Annual Financial Report of the State of Louisiana and since the total annual revenues of the State of Louisiana is in excess of \$100 million in the fiscal year ending June 30, 2001; therefore, the Louisiana Used Motor Vehicle and Parts Commission is (phase 1) required to implement the provisions for the pronouncement for financial statements for the period beginning after June 15, 2001. GASB Statement Number 34 establishes a new governmental financial reporting model that will feature, among other significant changes, management discussion and analysis, a unique combination of fund-based and government-wide financial statements, required supplementary information, accounting for infrastructure assets, and accounting for the depreciation of infrastructure assets. The effects on the Louisiana Used Motor Vehicle and Parts Commission's financial statements are not known at this time; however, the pronouncement will be implemented for the year ending June 30, 2002.

OTHER REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

Leroy J. Chustz
Certified Public Accountant, CPA
P. O. Box 158
Denham Springs, LA 70727-0158
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and

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7426 President Dr.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE GENERAL PURPOSE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board Members of
Louisiana Used Motor Vehicle and Parts Commission
Department of Economic Development
State of Louisiana
Baton Rouge, Louisiana

We have audited the general purpose financial statements of the LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION, a component unit of the State of Louisiana, as of and for the year ended June 30, 2001, and have issued our report thereon dated August 9, 2001. 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, and the *Louisiana Governmental Audit Guide*.

Compliance

As part of obtaining reasonable assurance about whether the Louisiana Used Motor Vehicle and Parts Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 one instance of noncompliance that are required to be reported under *Government Auditing Standards* and the *Louisiana Governmental Audit Guide* which are described in the accompanying findings as items 2001-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Louisiana Used Motor Vehicle and Parts Commission's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we

noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Louisiana Used Motor Vehicle and Parts Commission's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-1.

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 general purpose 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2001-1 to be a material weaknesses.

This report is intended solely for the information and use management, others within the organization, and Board of Commissioners and is not intended to be and should not be used by anyone other than these specified parties. By provisions of state law, this report is a public document, and it has been distributed to appropriate officials.

Leroy J. Chustz

Certified Public Accountant, APAC

Beverly A. Ryall

Certified Public Accountant

August 9, 2001

**LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2001**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of Louisiana Used Motor Vehicle and Parts Commission.
2. One reportable condition was disclosed during the audit of the general purpose financial statements which is considered to be a material weakness.
3. One instance of noncompliance was disclosed during the audit of the general purpose financial statements.
4. There were no federal awards received by Louisiana Used Motor Vehicle and Parts Commission.

B. FINDINGS--FINANCIAL STATEMENTS AUDIT

2001-1 Questioned Supervision of Assistant Executive Director and Hours Worked by the Assistant Executive Director

Condition:

The Office of State Inspector General for the State of Louisiana conducted an investigation into the employment of Jon Witherington, assistant director of the Louisiana Used Motor Vehicle and Parts Commission. The conclusion of that investigation found the following:

1. The assistant director could not verify working more than 20 hours a week while being paid to work 40. This practice took place for a 33 month period.
2. The assistant director falsified attendance and payroll records when he signed that he was present when he was actually absent 144 hours for medical reasons and 16 hours for personal reasons, from June 1998 through September 2000.
3. The executive director did not exercise proper supervision over the assistant director.

The Office of State Inspector General made the following recommendations:

1. This report should be sent to the appropriate authorities.

2. The Commission should correct the assistant director's leave balance with respect to the 144 hours sick and 16 hours annual for absences not charged.
3. The Commission should correct the assistant director's leave balance with respect to the 68 hours annual and 68 hours sick because the wrong factor was used to calculate his earnings.
4. The Commission should review this report and take appropriate action.

Management responded to the findings, the assistant director was terminated, and the matter was under review by the Louisiana Board of Ethics at June 30, 2001. As to recommendations, management is awaiting the opinion of the Louisiana Board of Ethics before acting on the estimated \$56,667 in inadequately documented time paid during the 33 months in question and the accumulated annual leave of 237 hours or \$5,697 is being reported as an accrued liability in the general long-term obligations. Since the assistant director has been terminated, the accumulated sick leave has been cancelled.

Subsequent Event

The Louisiana Board of Ethics at its July 19, 2001, meeting, ordered that a public hearing (no date has been set) be conducted for the purpose of exploring the following charges:

Jon Witherington

That Jon Witherington, as the assistant director of the Louisiana Used Motor Vehicle and Parts Commission, may have violated Section 1161F of the Code of Governmental Ethics (LSA-R.S. 42:1161F) by being on the payroll of the Louisiana Used Motor Vehicle and Parts Commission as its assistant director and not rendering services for which he was being paid on or about January 1998 to October 2000.

John M. "Jack" Torrance

That Jack Torrance, as the executive director of the Louisiana Used Motor Vehicle and Parts Commission, may have violated Section 1161F of the Code of Governmental Ethics (LSA-R.S. 42:1161F) by having Jon Witherington on the payroll as the assistant director of the Louisiana Used Motor Vehicle and Parts Commission who did not render services for which he was being paid on or about January 1998 to October 2000.

Criteria:

Under LSA R.S. 42:1161F. Screening of Employees, "Every agency head shall constantly screen all employees under his supervision to ascertain that such employees are needed to perform the work of the agency and shall promptly take the necessary steps to reduce the number of employees of the agency or

satisfactory number required. Knowingly having one or more employees on the payroll who are not rendering service for which they are being paid or having one or more employees on the payroll that violate the provisions of R.S. 42:1119 shall subject the agency head, a public employee having the authority to hire and fire the employee, and the immediate supervisor of the employee, as well as such employee, to the disciplinary action and penalties provided by this Chapter.”

Effect:

Provisions of LSA R.S. 42:1161F may have been violated.

Cause:

Inadequate supervision of employee.

Recommendation:

As to the inadequate supervision of employee, management should require the executive director to strengthen its internal controls to cover all employees of the commission. As to the findings of the Inspector General and subsequent charges of the Louisiana Board of Ethics, management should direct its executive director to fully cooperate with this investigation.

Response:

Management concurred with the recommendation.

MANAGEMENT'S CORRECTIVE ACTION PLAN

August 21, 2001

Office of the Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804

Gentlemen:

After discussion with our chairman, Mr. Henry Smith, regarding the investigation of the Ethics Commission on the matter of Jon Witherington and John Torrance, it was decided that no action will be taken by this commission until the Ethics Commission findings are complete.

If you need any further information, please contact me.

Sincerely,

John M. Torrance
Executive Director

TOTAL P.01

SUPPLEMENTAL INFORMATION REQUIRED BY

STATE OF LOUISIANA
DIVISION OF ADMINISTRATION
OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY

The following pages contain a report on the Board's Annual Financial Report prepared in accordance with the requirements of the Louisiana Division of Administration, Office of Statewide Reporting and Accounting Policy.

Leroy J. Chustz
Certified Public Accountant, CPA
P. O. Box 158
Denham Springs, LA 70727-0158
225/667-2700
Fax: 225/667-3553

and

Beverly A. Ryall
Certified Public Accountant
7426 President Dr.
Baton Rouge, LA 70817
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**INDEPENDENT AUDITOR'S REPORT ON
THE ANNUAL FINANCIAL REPORT TO THE
STATE OF LOUISIANA, DIVISION OF ADMINISTRATION
OFFICE OF STATEWIDE REPORTING AND ACCOUNTING POLICY**

Board Members of
Louisiana Used Motor Vehicle and Parts Commission
Department of Economic Development
State of Louisiana
Baton Rouge, Louisiana

Our report on the audit of the general purpose financial statements of the LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION as of and for the year ended June 30, 2001, appears on Pages 1 and 2. That audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Annual Financial Report for the year ended June 30, 2001, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Leroy J. Chustz
Certified Public Accountant, APAC

Beverly A. Ryall
Certified Public Accountant

August 9, 2001



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana
OFFICE OF THE GOVERNOR
USED MOTOR VEHICLE AND PARTS COMMISSION

JOHN M. "JACK" TORRANCE
EXECUTIVE DIRECTOR

August 21, 2001

Legislative Auditor
P. O. Box 94397
Baton Rouge, LA 70804-9397

Dear Sirs:

Enclosed is the Louisiana Used Motor Vehicle and Parts Commission reporting packet as required to be used in reporting the results of operation of the State's boards and commissions to OSRAP for the fiscal period ending June 30, 2000.

Should you have any questions concerning the information enclosed, please contact Ms. Lynette Binning at (225) 925-38709 ext. 213.

Sincerely,


John M. Torrance
Executive Director

JMT/ljb

Enclosure



State of Louisiana
OFFICE OF THE GOVERNOR
USED MOTOR VEHICLE AND PARTS COMMISSION

M. J. "MIKE" FOSTER, JR.
GOVERNOR

JOHN M. "JACK" TORRANCE
EXECUTIVE DIRECTOR

August 21, 2001

Division of Administration
Office of Statewide Reporting
And Accounting Policy
P. O. Box 94095
Baton Rouge, LA 70804-9095

Dear Sirs:

Enclosed is the Louisiana Used Motor Vehicle and Parts Commission reporting packet as required to be used in reporting the results of operations of the State's boards and commissions to OSRAP for the fiscal period ending June 30, 2001.

Should you have any questions concerning the information enclosed, please contact Ms. Lynette Binning at (225) 925-3870 ext. 213.

Sincerely,


John M. Torrance
Executive Director

JMT/ljb

Enclosure

STATE OF LOUISIANA

Louisiana Used Motor Vehicle and Parts Commission
Annual Financial Statement
For the Year Ended June 30, 2001
(fiscal close)

CONTENTS

	Statement	Page No.
Transmittal Letter		1
Affidavits		4
Component Unit Financial Statement:		
Balance Sheet - All Fund Types and Account Groups	A	6
<i>Statement of Revenues, Expenditures and Changes in Fund Balances</i>	B	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (GAAP/NON-GAAP Basis) and Actual	C	8
Notes to the Financial Statements		10
	Schedule	Page No.
Schedule of Per Diem Paid Board Members	1	19
Schedule of Expenditures by Object	2	20
Supplemental Information to Complete Note C		21

STATE OF LOUISIANA
Annual Financial Statement
Fiscal Year Ending June 30, 2001

Louisiana Used Motor Vehicle and Parts Commission
(Agency Name)

Division of Administration
Office of Statewide Reporting and
Accounting Policy
P. O. Box 94095
Baton Rouge, Louisiana 70804-9095

Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana
70804-9397

AFFIDAVIT

Personally came and appeared before the undersigned authority, Lynette J. Binning (Name)
Accountant 2 (Title) of Louisiana Used Motor Vehicle and Parts Commission (Agency) who
duly sworn, deposes and says that the financial statement herewith given presents fairly the
financial position of Louisiana Used Motor Vehicle and Parts Commission (Agency) at June 30,
2001 and the results of operations for the year then ended in accordance with policies and
practices established by the Division of Administration or in accordance with Generally
Accepted Account Principles as prescribed by the Governmental Accounting Standards Board.
Sworn and subscribed before me, this 14th day of August, 2001.

Signature of Agency Official

Notary Public

Prepared by: Lynette J. Binning

Title: Accountant 2

Telephone No.: (225) 925-3870 ext. 213

Date: August 14, 2001

Schedule No.



STATE OF LOUISIANA
Annual Financial Statement
Fiscal Year Ending June 30, 2001

Louisiana Used Motor Vehicle and Parts Commission
(Agency Name)

Division of Administration
Office of Statewide Reporting and
Accounting Policy
P. O. Box 94095
Baton Rouge, Louisiana 70804-9095

Legislative Auditor
P. O. Box 94397
Baton Rouge, Louisiana
70804-9397

AFFIDAVIT

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Accountant 2 (Title) of Louisiana Used Motor Vehicle and Parts Commission (Agency) who
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Accepted Account Principles as prescribed by the Governmental Accounting Standards Board.
Sworn and subscribed before me, this 14th day of August, 2001.

Signature of Agency Official

Notary Public

Prepared by: Lynette J. Binning
Title: Accountant 2
Telephone No.: (225) 925-3870 ext. 213
Date: August 14, 2001

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 BALANCE SHEET – ALL FUNDS AND ACCOUNT GROUPS
 AS OF June 30, 20 01

	<u>Governmental Fund Types</u>		<u>Account Groups</u>		Total (Memorandum Only)
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
ASSETS AND OTHER DEBITS					
Cash and cash equivalents	\$ 1,506,688	\$ _____	\$ _____	\$ _____	\$ 1,506,688
Investments	_____	_____	_____	_____	_____
Receivables	_____	_____	_____	_____	_____
	16,040	_____	_____	_____	16,040
Due from other funds	_____	_____	_____	_____	_____
Other assets	_____	_____	_____	_____	_____
Fixed assets	_____	_____	547,877	_____	547,877
Amount to be provided for retirement of general long-term obligations	_____	_____	_____	69,688	69,688
TOTAL ASSETS AND OTHER DEBITS	\$ 1,522,728	\$ _____	\$ 547,877	\$ 69,688	\$ 2,140,293
LIABILITIES, FUND EQUITY, AND OTHER CREDITS					
LIABILITIES:					
Accounts payable	\$ 7,223	\$ _____	\$ _____	\$ _____	\$ 7,223
Compensated absences payable	_____	_____	_____	69,688	69,688
Due to other funds	_____	_____	_____	_____	_____
Long-term obligations payable	_____	_____	_____	_____	_____
Other liabilities	9,878	_____	_____	_____	9,878
Total liabilities	17,101	_____	_____	69,688	86,789
EQUITY AND OTHER CREDITS:					
Investment in general fixed assets	_____	_____	547,877	_____	547,877
Fund balance – reserved	_____	_____	_____	_____	_____
– unreserved, undesignated	1,505,627	_____	_____	_____	1,505,627
– unreserved, designated	_____	_____	_____	_____	_____
Total equity and other credits	1,505,627	_____	547,877	_____	2,053,504
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	\$ 1,522,728	\$ _____	\$ 547,877	\$ 69,688	\$ 2,140,293

The accompanying notes are an integral part of this statement.

Statement A

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED June 30, 20 01

	General Fund	Special Revenue Fund(s)	Total (Memorandum Only)
REVENUES:			
Use of money and property	\$ 83,483	\$	\$ 83,483
Licenses, permits, and fees	1,050,195		1,050,195
Sales of commodities and services			
Other	9,680		9,680
Enforcement Actions	19,467		19,467
 Total revenues	 1,162,825		 1,162,825
EXPENDITURES:			
Intergovernmental			
Other	965,344		965,344
 Total expenditures	 965,344		 965,344
 Excess(Deficiency) of Revenues over Expenditures	 197,481		 197,481
OTHER FINANCING SOURCES(USES):			
 Total other financing sources(uses)			
 Excess(deficiency) of revenues and other sources over expenditures and other uses	 197,481		 197,481
 Fund balance(deficit) at beginning of year (as restated)	 1,308,146		 1,308,146
 Fund balance(deficit) at end of year	 \$ 1,505,627	\$	 \$ 1,505,627

The accompanying notes are an integral part of this statement.

Statement B

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET (GAAP/NON-GAAP BASIS) AND ACTUAL
 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED June 30, 20 01

	GENERAL FUND		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
*Licenses	\$ 1,057,835	\$ 1,054,795	\$ (3,040)
*Enforcement Actions	13,674	19,467	5,793
*Non-sufficient funds fees	800	775	(25)
*Interest on certificates of deposit	62,440	62,959	519
*Interest on operating account	20,525	20,525	
*Copies and dealers lists	1,993	1,944	(49)
*Other (miscellaneous)	2,360	2,360	
Total revenues	<u>1,159,627</u>	<u>1,162,825</u>	<u>3,198</u>
EXPENDITURES:			
*Salaries	675,538	673,599	1,939
*Operating	170,506	170,303	203
*Professional Services	75,158	70,925	4,233
*Other Charges	10,920	11,245	(325)
*Acquisitions and Major Repairs	39,272	39,272	
Total expenditures	<u>971,394</u>	<u>965,344</u>	<u>6,050</u>
Excess(Deficiency) of Revenues over Expenditures	<u>188,233</u>	<u>197,481</u>	<u>9,248</u>
OTHER FINANCING SOURCES(USES):			
Total other financing sources(uses)			
Excess(deficiency) of revenues and other sources over expenditures and other uses			
Fund balance(deficit) at beginning of year Adjustment	<u>1,312,450</u>	<u>1,308,146</u>	<u>4,304</u>
Fund balance(deficit) at end of year	<u>\$ 1,500,683</u>	<u>\$ 1,505,627</u>	<u>\$ 4,944</u>

* Categorize revenues and expenditures according to board's/commission's chart of accounts.

The accompanying notes are an integral part of this statement.

Statement C

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET (GAAP/NON-GAAP BASIS) AND ACTUAL
 GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED June 30, 20 01

SPECIAL REVENUE FUND(S)

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
*	\$	\$	\$
*			
*			
*			
*			
Total revenues			
EXPENDITURES:			
*			
*			
*			
*			
*			
Total expenditures			
Excess(Deficiency) of Revenues over Expenditures			
OTHER FINANCING SOURCES(USES):			
Total other financing sources(uses)			
Excess(deficiency) of revenues and other sources over expenditures and other uses			
Fund balance(deficit) at beginning of year			
Adjustment			
Fund balance(deficit) at end of year	\$	\$	\$

* Categorize revenues and expenditures according to board's/commission's chart of accounts.

The accompanying notes are an integral part of this statement.

Statement C

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF OFFICE OF THE GOVERNOR
Notes to the Financial Statement
As of and for the year ended June 30, 2001

INTRODUCTION

The Louisiana Used Motor Vehicle and Parts Commission is a component unit of the State of Louisiana created within the Louisiana Department of Office of the Governor, as provided by Louisiana Revised Statutes 36:109. The board/commission is composed of 12 members, appointed by the governor, who serve terms concurrent with governor. The board/commission is charged with the responsibility of licensing used motor vehicle dealers, salesmen, automotive dismantlers, auto crushers, parts recyclers, marine and motorcycle dealers, as well as hearing complaints on used vehicles and parts. Operations of the board/commission are funded with license fees

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Presentation

In April of 1984, the Financial Accounting Foundation established the Governmental Accounting Standards Board (GASB) to promulgate generally accepted accounting principles and reporting standards with respect to activities and transactions of state and local governmental entities. The GASB has issued a Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). This codification and subsequent GASB pronouncements are recognized as generally accepted accounting principles for state and local governments. The accompanying financial statements have been prepared in accordance with such principles.

2. Reporting Entity

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity for the board/commission to be the State of Louisiana because the state exercises oversight responsibility in that the governor appoints the commission members and public service is rendered within the state's boundaries. The accompanying financial statements present transactions of the Louisiana Used Motor Vehicle and Parts Commission and therefore, are a part of the fund and account group structure of the State of Louisiana. Annually the State of Louisiana issues general-purpose financial statements, which are audited by the Louisiana Legislative Auditor.

3. Fund Accounting

The board/commission uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the fund because they do not directly affect net expendable financial resources. The funds presented in the financial statement are described as follows:

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF OFFICE OF THE GOVERNOR
Notes to the Financial Statement
As of and for the year ended June 30, 2001

General Fund

The General Fund is classified as a governmental fund. The General Fund is the general operating fund of the board/commission and accounts for all financial resources. Revenues are accounted for in this fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. General operating expenditures are paid from this fund.

Special Revenue Fund(s)

Special Revenue Fund(s) are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Account Groups

The two account groups are not "funds". They are concerned only with the measurement of financial position, not with measurement of results of operations. Account groups are used to establish accounting control and accountability for general fixed assets and general long-term debt.

a. General Fixed Asset Account Group – Fixed assets used in the governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in the governmental fund.

b. General Long Term Debt Account Group – obligations such as compensated absences payable expected to be financed from governmental funds are accounted for in the general long-term debt account group not in the governmental funds.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statement. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The commission's records are maintained on the cash basis of accounting using the following practices:

Revenues

License fees are recorded when they are considered measurable and available for use. Interest earnings are recorded when the income is earned. Other revenues are recognized when they become measurable and available as current assets.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for accumulated annual and sick leave, which is recorded as an expenditure when expected to be paid from current available resources.

Other Financing Sources (Uses)

(This space should be used to describe the composition of Other Financing Sources (Uses). Examples of Other Financing Sources include amounts equal to the present value of minimum lease payments arising from capital leases, proceeds from the sale of general assets, and operating transfers in. Examples of Other Financing Uses include deposits with escrow agents and operating transfers out.)

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF OFFICE OF THE GOVERNOR
 Notes to the Financial Statement
 As of and for the year ended June 30, 2001

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

6. Total Columns on Combined Statements

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

B. BUDGET PRACTICES

The Louisiana Used Motor Vehicle & Parts Commission utilizes the following budgetary practices:

Annually the commission adopts a budget that is submitted to the Joint Legislative Committee on the Budget, each chairman of a standing committee of the Legislature having jurisdiction, to the Legislative Auditor, and the Legislative Fiscal Office, and the Office of the Governor Department as prescribed by LRS 39:1332-1342. The budget for fiscal year ended June 30, 2001 (last day of your fiscal year) was adopted on November 16, 1999, and is prepared and reported on a cash accrual basis of accounting. Although budget amounts lapse at year-end, the commission retains its unexpended fund balance to fund expenditures of the succeeding year. The budget amounts on Statement C reflect the amended adopted budgets for the fiscal year ended June 30, 2001 (last day of your fiscal year). There was/were one amendment(s) made to the budget.

(There should be a reconciliation of any non-GAAP budget amounts on Statement C to the amounts on Statement B, using the excess of revenues and other sources over expenditures and other uses figures as the basis of the reconciliation.)

The following individual funds had actual expenditures over adopted budgeted expenditures for the year-ended June 30, 2001(last day of your fiscal year):

<u>Fund</u>	<u>Fund Type</u>	<u>Ending Fund Balance</u>
<u>Operating</u>	<u>General</u>	<u>(Deficit)</u>
		\$ <u>1,505,627</u>

C. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (If all agency cash and investments are deposited in the State Treasury, disregard Note C.)

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 Notes to the Financial Statement
 As of and for the year ended June 30, 2001

1. DEPOSITS WITH FINANCIAL INSTITUTIONS

For reporting purposes, deposits with financial institutions include savings, demand deposits, time deposits, and certificates of deposit. Under state law the LA Used Motor Vehicle & Parts Commission may deposit funds within a fiscal agent bank selected and designated by the Interim Emergency Board. Further, the Commission may invest in time certificates of deposit of state banks organized under the laws of Louisiana, national banks having their principal office in the state of Louisiana, in savings accounts or shares of savings and loan associations and savings banks and in share accounts and in share certificate accounts of federally or state chartered credit unions.

Deposits in bank accounts are stated at cost, which approximates market. Under state law federal deposit insurance or the pledge of securities owned by the fiscal agent bank must secure these deposits. 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. These pledged securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank. The deposits at June 30, 2001, were secured as follows:

	Deposits in bank accounts			
	Cash	Certificates of Deposit	Other (Describe)	Total
Deposits in bank accounts per balance sheet	\$ 516,203	\$ 989,985	\$ _____	\$ 1,506,188
Bank balances:				
1. Insured or collateralized with securities held by the entity or its agency in the entity's name	564,833	989,985	_____	1,554,818
2. Collateralized with securities held by the pledging institution's trust department or agent in the entity's name	_____	_____	_____	_____
3. Uncollateralized, including any securities held for the entity but not in entity's name	_____	_____	_____	_____
Total bank balances	\$ 564,833	\$ 989,985	\$ _____	\$ 1,554,818

Note: The "Total Bank Balances" will not necessarily equal the "Deposits in Bank Account per Balance Sheet".

The following is a breakdown by banking institutions, program, account number and amount of the bank balances shown above:

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 Notes to the Financial Statement
 As of and for the year ended June 30, 2001

	<u>Banking institution</u>	<u>Program</u>	<u>Amount</u>
1.	Bank One	Operating Account	\$ 516,203
2.	Louisiana Central Bank	Certificate of Deposit	99,000
3.	Richland State Bank	Certificate of Deposit	99,000
4.	Hancock Bank	Certificate of Deposit	99,000
5.	Business Bank of Baton Rouge	Certificate of Deposit	98,985
6.	Whitney Bank	Certificate of Deposit	99,000
7.	Liberty Bank	Certificate of Deposit	99,000
8.	Guaranty Bank	Certificate of Deposit	99,000
9.	Louisiana Central Bank	Certificate of Deposit	99,000
10.	Concordia Bank & Trust	Certificate of Deposit	99,000
11.	Clinton Bank & Trust	Certificate of Deposit	99,000
	Total		\$ 1,506,188

Were uncollateralized securities fitting the description in (3) above during the year greater than at June 30, 2001 (last day of your fiscal year)? If yes, attach a statement listing the amount(s) and a reason for this occurrence. If not, proceed.

Cash in state treasury and petty cash are not required to be reported in the note disclosure. However, to aid in reconciling amounts reported on the balance sheet to amounts reported in this note, list below any cash in treasury and petty cash that are included in the balance sheet:

Cash in State Treasury	\$	<u> </u>
Petty cash	\$	<u>500</u>

D. GENERAL FIXED ASSETS

Fixed assets used in the governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost. (If historical cost is not available, describe alternate method of valuation and disclose the extent to which fixed assets have been estimated.)

A summary of changes in general fixed assets follows:

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 Notes to the Financial Statement
 As of and for the year ended June 30, 2001

	Balance at (beginning)	Additions	Deletions	Balance at (ending)
Land	\$ _____	\$ _____	\$ _____	\$ _____
Buildings	200,000	_____	_____	200,000
Equipment	341,677	39,022	32,822	347,877
Construction in progress	_____	_____	_____	_____
Total	\$ 541,677	39,022	32,822	547,877

E. INVENTORIES

Governmental fund inventories of the commission are recorded at cost and recognized as an expenditure when purchased. All fixed assets are valued at historical cost.

F. RESTRICTED ASSETS

Restricted assets in the commissions General Fund at June 30, 2001 (the last day of your fiscal year), reflected at \$ 0 on Statement A, consist of \$ 0 of cash with fiscal agent and \$ 0 of U.S. Treasury Notes held for the Public Improvement Fixed Rate Refunding Bonds.

G. PAYABLES

At June 30, 2001 (the last day of your fiscal year), the commission had payables totaling \$17,101, as follows:

Class of payable	Governmental Funds		Total
	General Fund	Special Revenue	
Account payable	\$ 7,223	\$ _____	\$ 7,223
Taxes payable	_____	_____	_____
Salaries payable	_____	_____	_____
Payroll deductions payable	9,878	_____	9,878
Other payables: (identify)	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
Total payables	\$ 17,101	\$ _____	\$ 17,101

H. RETIREMENT SYSTEM

Substantially all of the employees of the commission belong to the La. State Employees' Retirement System a cost sharing multiple employer (single, cost sharing multiple employer, other) defined benefit pension plan. The La. State Employees' Retirement System is a statewide public employee retirement system and is available to all eligible employees. The System(s) publish(es) yearly annual financial reports that include detailed historical, financial, and actuarial information.

All full-time commission employees are eligible to participate in the System. Benefits vest with 10 years of service. At retirement age, employees are entitled to annual benefits equal to \$300 plus 2.5% of their highest consecutive 36 months' average salary multiplied by their years of credited service. Vested employees are entitled to a retirement benefit, payable monthly for life at (a) any age with 30 years of service, (b) age 55 with 25 years of service, or (c) age 60 with 10 years of service. In addition, vested employees have the option of reduced benefits at any age with 20 years of service. The System also provides death and disability benefits. Benefits are established or amended by state statute. The System issues an annual publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804-4213, or by calling (225) 922-0608 or (800) 256-3000.

Members are required by state statute to contribute 7.5% of gross salary, and the board/commission is required to contribute at an actuarially determined rate as required by LRS 11:102. The contribution rate for the fiscal year ended June 30, 2001, increased to 13.0 % of annual covered payroll from the 12.3% and 13.0% required in fiscal years ended June 30, 1999 and 1998, respectively. The commission contributions to the System for the years ending June 30, 2001, 2000, and 1999, were \$61,552, \$59,069, and \$56,619, respectively, equal to the required contributions for each year.

I. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

GASB 12 requires the following disclosures about an employer's accounting for post retirement health care and life insurance benefits:

1. A description of the benefits provided and the employee group covered.
2. A description of the accounting and funding policies followed for those benefits.
3. The cost of those benefits recognized for the period, unless the costs are not readily determinable.**
4. The effect of significant matters affecting the comparability of the costs recognized for all periods presented.

**If the cost of any post retirement health care or life insurance benefits cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, the total cost of providing those benefits to active employees and retirees, as well as the number of active employees and the number of retirees covered by the plan must be disclosed.

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
DEPARTMENT OF OFFICE OF THE GOVERNOR
Notes to the Financial Statement
As of and for the year ended June 30, 2001

The La. Used Motor Vehicle & Parts Commission provides certain continuing health care and life insurance benefits for its retired employees. Substantially all commission employees become eligible for those benefits if they reach normal retirement age while working for the commission. Those benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and by the commission. The commission recognizes the cost of providing these benefits (commission's portion of premiums) as an expenditure when paid during the year, which was \$3,785 for the year ended June 30, 2001. The cost of providing those benefits for _____ retirees is not separable from the cost of providing benefits for the _____ active employees. (or, The board/commission's cost of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended _____, 20____ the costs of _____ retiree benefits totaled \$_____).

J. LEAVE

1. COMPENSATED ABSENCES

The La. Used Motor Vehicle & Parts Commission has the following policy on annual and sick leave:

Employees earn and accumulate annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay at the time of termination. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave is used to compute retirement benefits. The cost of leave privileges, computed in accordance with GASB Codification Section C60, \$ 0, is recognized as a current year expenditure in the General Fund when leave is actually taken; it is recognized in the enterprise fund when the leave is earned. The cost of leave privileges applicable to general government operations not requiring current resources \$69,688, is recorded in the general long-term obligations account group.

2. COMPENSATORY LEAVE

Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employees' hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave for June 30, 2001(your fiscal year) computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be \$ 0. The leave payable (is) (is not) recorded in the accompanying financial statements.

K. GENERAL LONG-TERM OBLIGATIONS

Long-term obligations expected to be financed from governmental funds are accounted for in the general long-term obligation account group, not in the governmental funds.

STATE OF LOUISIANA
 LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
 DEPARTMENT OF OFFICE OF THE GOVERNOR
 Notes to the Financial Statement
 As of and for the year ended June 30, 2001

The following is a summary of the long-term obligation transactions for (the last day of your fiscal year):

Long term obligations payable at <u>June 30</u> , 2000	\$ <u>65,219</u>
Additions	<u>5,398</u>
Retirements	<u>929</u>
Long term obligations payable at <u>June 30</u> , 2001	\$ <u>69,688</u>

(Describe in detail the long-term obligations outstanding at fiscal year end. Include a discussion of notes payable as to amount, interest rates, purpose, maturity dates, installment amounts, etc.)

L. LITIGATION

1. The La. Used Motor Vehicle & Parts Commission is a defendant in litigation seeking damages as follows:

<u>Date of Action</u>	<u>Description of Litigation</u>	<u>Primary Attorney</u>	<u>Damages Claimed</u>	<u>Insurance Coverage</u>
<u>05/12/97</u>	<u>Cancelled License</u>	<u>Sonia Mallet</u>	\$ <u>10,000</u>	\$ <u>10,000</u>
<u>05/21/98</u>	<u>Harassment, defamation</u>	<u>Richard Bailly</u>	<u>0</u>	<u>0</u>
Totals			\$ <u>10,000</u>	\$ <u>10,000</u>

Of the amount not covered by insurance, \$ 0, the board/commission has recorded \$ 0 as a liability of the General Fund and \$ 0 as a general long-term liability, as required by GASB Codification Section C50.

The La. Used Motor Vehicle & Parts Commission's legal advisor estimates that potential claims not covered by insurance would affect the financial statement as follows (would not materially affect the financial statements or is unable to estimate the effect on the financial statement): Would not materially affect the financial statements.

Claims and litigation costs of \$ 0 were incurred in the current year. Of this amount, \$ 0 has been recorded as a current year expenditure in the General Fund and \$ 0 has been recorded in the general long-term obligations account group as an obligation not requiring current resources.

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
SCHEDULE OF PER DIEM PAID TO BOARD MEMBERS
For the Year Ended June 30, 2001
(Fiscal Close)

<u>Name</u>	<u>Amount</u>
Hoytt Adcock	\$ 0.00 (waived)
James Cook	600.00
Samuel L. Davidson	375.00
Richard Friederichsen	600.00
Jay Galland	0.00 (waived)
Jim Gauthier	450.00
Charles Healey	750.00
Bernhardt Hunter	150.00
Francis A. Landry	825.00
Gerald Link	600.00
Lee A. Meyer	150.00
Doug Miller	75.00
Marvin Ramsey	825.00
Michael Roberts	0.00 (waived)
M. J. Smiley	675.00
Henry A. Smith	900.00
Total	<u>\$6975.00</u>

Schedule 1

STATE OF LOUISIANA
LOUISIANA USED MOTOR VEHICLE AND PARTS COMMISSION
SCHEDULE OF EXPENDITURES BY OBJECT
For the Year Ended June 30, 2001
(Fiscal Close)

Expenditure	Amount
Personal services	\$ 673,599
Travel	11,732
Operating services	133,896
Supplies	24,675
Professional services	70,925
Other charges	11,245
Capital outlay	39,272
Interagency transfers	_____
Debt service	_____
Total	\$ 965,344

Schedule 2

INFORMATION FOR "DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS" Supplementary Information to Complete Note C

Purpose:

Note C provides the required disclosures about the governmental entities' deposits with financial institutions and investments. The disclosures required for deposits and investments as of the balance sheet date provide information about the credit risk and market risk of the deposits and investments and are designed to provide users of the financial statements information about the potential for losses associated with the deposits and investments.

I. Comparison of amounts disclosed for GASB 3 requirements in the note to amounts shown on the Balance Sheet:

- Generally, the amounts of cash and investments on the balance sheet will not be classified exactly the way they would be classified in the note.
- "Deposits with Financial Institutions" and "Investments" in the note may be reported on the balance sheet using titles or line items that are different than those in the note, or there may be combinations of titles or line items. For instance, "Deposits" in the note may come from several line items on the balance sheet such as "Cash in Bank" and "CD's", or even "Investments" (See section II below that gives further guidance on what should be considered "Deposits" in the note).
- Line items on the balance sheet may include amounts that would be deposits in the note, and may also include amounts that would be investments in the note. Also, cash and cash equivalents line items on the balance sheet may include amounts that are not deposited in bank accounts of the entity and therefore would not be reported in the note at all, such as petty cash, cash on hand, and treasury cash.
- Each line item on the balance sheet that involves cash or investments, including any restricted cash and/or investments, needs to be analyzed to determine what is included in the item and how it should be disclosed in the note.
- There is not a requirement to provide reconciliation between disclosures in the note and the amounts on the balance sheet, but preparing one could be useful. If a reconciliation is prepared, the total of the balance sheet cash, cash equivalents, and investment line items should equal the total of the deposits and investments in the note (unless the balance sheet cash includes cash not deposited in bank accounts as mentioned above).

II. "Deposits with Financial Institutions" section of the note:

Generally, this section of the GASB 3 disclosure, previously titled "Cash and Cash Equivalents", refers to the various examples of "Deposits With Financial Institutions" (See A. for examples). The term "cash and cash equivalents" is used in reference to GASB Statement 9 that affects presentation for the balance sheet and statement of cash flows, not the note disclosures required by GASB Statement 3. "Deposits with Financial Institutions" includes deposit accounts in banks, savings and loan associations, and credit unions. It can include demand, savings, or time accounts, negotiable order of withdrawal (NOW) accounts, and non-negotiable CD's. As stated previously, deposits for GASB 3 disclosure may be a combination of balance sheet line items or titles. DO NOT include treasury cash, petty cash not in a bank account, or cash on hand in the note. If a reconciliation of the note and the balance sheet is prepared as mentioned previously, these amounts would be reconciling items.

A. Examples and/or definitions:

Nonnegotiable Certificates of Deposit – Nonnegotiable CDs are time deposits that are placed

by depositors directly with financial institutions and generally are subject to a penalty if redeemed before maturity. These are treated as **deposits** for GASB 3 Note disclosures. (Negotiable CDs are securities that are normally sold in \$1 million units that are traded in a secondary market. These are treated as **investments** for GASB 3 Note disclosures.)

Money Market Accounts – financial institution “money market” accounts are simply deposits that pay interest at a rate set to make the accounts competitive with money market mutual funds. They should be treated like any other deposit account for GASB 3 Note disclosures.

Bank Investment Contracts (BIC) – A BIC is a general obligation instrument issued by a bank, typically to a pension plan, that provides for a guaranteed return on principal over a specified period. Since a bank issues these, they are treated as **deposits** for GASB 3 Note disclosures.

B. other definitions as applied to deposits:

Insured (Insurance) – deposits are insured by federal deposit insurance (FDIC), state deposit insurance, multiple financial institution collateral pools that insure public deposits, and even commercial insurance (if scope of coverage would be substantially the same as FDIC).

Collateral – Security pledged by a financial institution to a government entity for its deposits.

III. “Investments” section of Note:

Investments for GASB 3 requirements are either “categorized as to level of credit risk” or “not categorized”, and are generally classified by whether they fit the definition of securities or not (see the definition of securities in section IV.C.).

A. Types of investments that can be categorized as to level of risk & definitions/ examples: (In general, investments that fit the definition of securities are categorized in categories of risk.)

1. Repurchase Agreements – An agreement in which a governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for: a) the same securities, or for b) different securities.
2. U.S. Government Obligations – examples include treasury bills, treasury notes and treasury strips; obligations of certain U.S. Government Agencies such as FNMA, FHLB, or SLMA.
3. Common & Preferred Stock – a security that represents an ownership interest in an entity.
4. Commercial Paper – An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. Almost all commercial paper is rated as to credit risk by rating services.
5. Corporate Bonds
6. Other – It is not appropriate to present material amounts of investments as “Other”, unless the narrative of the note disclosure describes the composition of the “Other” category.
7. Closed-end Mutual Fund – The investment company sells shares of its stock to investors and it invests on the shareholders’ behalf in a diversified portfolio of securities. A closed-end mutual fund has a constant number of shares, the value depends on the market supply and demand for the shares rather than directly on the value of the portfolio, the fund does issue certificates, and the securities are traded on a stock exchange.

B. Types of investments that cannot be categorized as to level of risk: (In general, investments that are not securities are not classified in categories of credit risk)

1. Reverse Repurchase Agreements - An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay

- the cash plus interest in exchange for a) the same securities, or for b) different securities.
2. Open-end Mutual Funds – The investment company sells shares of its stock to investors and it invests on the shareholders' behalf in a diversified portfolio of securities. In contrast to a closed-end mutual fund, the open-end mutual fund creates new shares to meet investor demand, the value depends directly on the value of the portfolio, and the fund does not issue certificates but sends out periodic statements showing account activity. These investments are not evidenced by securities that exist in physical or book entry form.
 3. Investments in pools managed by another government – GASB 3 does not require the investment to be categorized as to level of risk, but it does not prohibit it either. Generally, these investments would not be categorized because they are not evidenced by securities that exist in physical or book entry form.
 4. Private placements, such as venture capital and limited partnerships
 5. Investments in real estate, annuity contracts, and direct investments in mortgages

IV. Categories of Credit Risk for Deposits and Investments:

Deposits and investments are subject to several types of risks, mainly credit risk and market risk.

- Credit risk - defined as the risk that a counterparty to an investment transaction will not fulfill its obligations and can be associated with the issuer of securities, with a financial institution holding deposits, or with a party holding investment or collateral securities.
- Market risk – defined as the risk that the market value of investment securities, collateral securities protecting a deposit or securities of a repurchase agreement will decline.
- Credit risk categories – concerned with custodial credit risk, which is the risk that a government will not be able (1) to recover deposits if the depository financial institution fails or (2) to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails.

A. Deposits are classified into three categories depending on whether they are insured or collateralized, and who holds the collateral and how the collateral is held.

Collateral – Securities pledged by the financial institution for the purpose of securing the governmental entity's deposits.

Collateralized – When the entity's deposits are secured with securities pledged by the financial institution holding the deposits.

Category 1 – Deposits that are covered by insurance (FDIC) or collateralized with securities that are held by the entity in the entity's name or registered in the entity's name.

Category 2 – Deposits that are not insured but are collateralized with securities that are held by the financial institution's trust department or agent and are in the entity's name.

Category 3 – Deposits that are not covered by insurance and also are not collateralized. Not collateralized includes when the securities are held by the financial institution's trust department or agent and they are not in the entity's name.

B. Investments are classified into three categories depending on whether they are insured or registered, and who holds the securities and how they are held.

Category 1 – Investments that are insured (SIPC) or registered in the entity's name, or securities held by the entity or agent in the entity's name.

Category 2 – Investments that are not insured or registered, and the securities are held by the counterparty's trust department or agent in the entity's name.

Category 3 – Investments that are not insured or registered, and the securities are held by the counterparty or its trust department or agent not in the entity's name.

C. Securities as applied to the credit risk categories:

Securities – a transferable financial instrument that evidences ownership or creditorship. Securities can be in either paper or book-entry form.

1. Examples of securities that are often held by or pledged to (as collateral) governmental entities include:

- a. Treasury bills, treasury notes, treasury bonds
- b. Federal agency obligations
- c. Corporate debt instruments (including commercial paper)
- d. Corporate equity instruments
- e. Negotiable CD's (keyword here is negotiable)
- f. Bankers' acceptances
- g. Shares of closed-end mutual funds (keyword here is closed-end)
- h. Shares of unit investment trusts

2. Instruments or investments that are not securities include: (and are therefore not be categorized as to credit risk for GASB 3 disclosure requirements)

- a. Investments made directly with another party (such as limited partnerships)
- b. Real estate
- c. Direct investments in mortgages and other loans
- d. Investments in open-ended mutual funds (keyword here is open-ended)
- e. Pools managed by other governments
- f. Annuity contracts
- g. Guaranteed investment contracts