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LOUISIANA HIGH RISK HEALTH POOL, INC.

d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 1999 and 1998

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 JUL 26 2000



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
FINANCIAL STATEMENTS
DECEMBER 31, 1999 and 1998



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Louisiana High Risk Health Pool, Inc.
d/b/a Louisiana Health Insurance Association
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position of Louisiana High Risk Health Pool, Inc. (a not-for-profit organization) d/b/a Louisiana Health Insurance Association as of December 31, 1999 and 1998, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana High Risk Health Pool, Inc., d/b/a Louisiana Health Insurance Association, as of December 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2000, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2000



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

Board of Directors
Louisiana High Risk Health Pool, Inc.
d/b/a the Louisiana Health Insurance Association
Baton Rouge, Louisiana

We have audited the accompanying financial statements of Louisiana High Risk Health Pool, Inc. (a not-for-profit organization) d/b/a the Louisiana Health Insurance Association (the Association) as of and for the year ended December 31, 1999, and have issued our report thereon dated June 16, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Association's 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 the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 the Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item B-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 could 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. 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. We do not believe that the lack of segregation of duties described in the accompanying schedule of findings and questioned costs is a material weakness.

This report is intended solely for the information and use of the finance committee and management of the Louisiana Health Insurance Association, the Commissioner of Insurance of the State of Louisiana, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and, and its distribution is not limited.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2000



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Investments	\$ 16,138,233	\$ 14,643,924
Cash and cash equivalents	111,631	165,452
Accrued interest receivable	239,616	164,133
Property and equipment (net of accumulated depreciation and amortization of \$62,477 and \$54,050, respectively)	20,332	19,926
Total assets	\$ 16,509,812	\$ 14,993,435

LIABILITIES AND NET ASSETS

LIABILITIES

Claims payable	\$ 3,115,750	\$ 1,273,595
Accounts payable	20,686	-
Payroll taxes payable	929	961
Unearned revenues	-	4,907
Total liabilities	3,137,365	1,279,463

NET ASSETS

Unrestricted

Designated by the Board of Directors for the capital and surplus requirements of Louisiana insurance laws and regulations	3,000,000	3,000,000
Undesignated	10,372,447	10,713,972
Total unrestricted net assets	13,372,447	13,713,972
Total liabilities and net assets	\$ 16,509,812	\$ 14,993,435

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>REVENUES</u>		
State appropriations	\$ 2,000,000	\$ 2,000,000
Mandated service charges	579,836	453,154
Insurance company assessments	2,149,229	1,061,006
Premiums	3,090,712	2,400,161
Investment revenues	277,863	1,089,077
Net gain (loss) on sales of investments	(3,866)	(9,594)
	8,093,774	6,993,804
<u>CLAIMS EXPENSES</u>		
Claims administration	141,085	97,492
Claims payments	5,397,492	5,531,465
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	1,842,155	(29,355)
	7,380,732	5,599,602
<u>OPERATING EXPENSES</u>		
Advertising	3,586	54,102
Agent commissions	1,464	-
Bank and trustee fees	40,332	19,864
Computer services	89,416	79,869
Consultant - actuary	34,783	20,892
Copy usage and supplies	13,257	18,814
Depreciation and amortization	8,427	8,632
Insurance	19,889	24,686
Maintenance	4,308	3,166
Miscellaneous expenses	6,347	4,733
Office supplies	18,898	7,599
Payroll taxes	17,783	14,729
Postage	18,843	16,754
Professional education	3,045	596
Professional fees	109,004	135,930
Rent	27,012	25,685
Salaries and wages	258,151	188,724
Subscriptions and dues	1,938	2,054
Telephone and utilities	15,656	11,863
Travel expenses	4,025	6,397
Uncollectible accounts	358,403	33,896
	1,054,567	678,985

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>CHANGE IN NET ASSETS</u>	\$ (341,525)	\$ 715,217
Net assets - beginning of year	13,713,972	12,998,755
Net assets - end of year, including the \$3,000,000 designated by the Board of Directors for the capital and surplus requirements of Louisiana insurance laws and regulations	\$ 13,372,447	\$ 13,713,972
 <u>Additional disclosures of claims activity:</u>		
Claims payable - beginning of year	\$ 1,273,595	\$ 1,302,950
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	1,842,155	(29,355)
Claims payable - end of year	\$ 3,115,750	\$ 1,273,595

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
State appropriations received	\$ 2,000,000	\$ 2,000,000
Mandated service charges received	579,836	453,154
Insurance company assessments received	2,144,322	1,065,913
Premiums received	3,090,712	2,400,161
Investment interest received	878,069	890,014
Claims paid for participants	(5,538,577)	(5,628,957)
Cash paid to employees and suppliers	(1,025,486)	(670,306)
Net cash provided by operating activities	<u>2,128,876</u>	<u>509,979</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(8,833)	(5,602)
Proceeds from sales and maturities of investments	1,936,974	2,408,848
Purchases of investments	(4,110,838)	(2,787,395)
Net cash used in investment activities	<u>(2,182,697)</u>	<u>(384,149)</u>
 Net increase (decrease) in cash and cash equivalents	 (53,821)	 125,830
 Cash and cash equivalents - beginning of year	 <u>165,452</u>	 <u>39,622</u>
 Cash and cash equivalents - end of year	 <u>\$ 111,631</u>	 <u>\$ 165,452</u>

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>Reconciliation of change in net assets to</u>		
<u>net cash provided by operating activities</u>		
Change in net assets	\$ (341,525)	\$ 715,217
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,427	8,632
Net change in unrealized (gains) losses on investments	631,646	(221,322)
Net loss on sales of investments	3,866	9,594
Net amortization of premiums and discounts	44,043	8,381
Decrease (increase) in accrued interest receivable	(75,483)	13,878
Increase (decrease) in claims payable	1,842,155	(29,355)
Increase in accounts payable and other accruals	20,654	47
Increase (decrease) in unearned revenues	(4,907)	4,907
Net cash provided by operating activities	\$ 2,128,876	\$ 509,979

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

The accounting and reporting policies of Louisiana High Risk Health Pool, Inc., d/b/a Louisiana Health Insurance Association (the Association), conform to generally accepted accounting principles and the prevailing practices within the insurance industry. A summary of significant policies is as follows:

Organization

Louisiana High Risk Health Pool, Inc., d/b/a Louisiana Health Insurance Association, is a not-for-profit organization that was originally formed under Louisiana Legislative Act No. 131 of 1990 to provide a mechanism which would insure the availability of health and accident insurance coverage to those citizens of Louisiana who, because of health conditions, could not otherwise secure insurance coverage (non-federally defined eligible individuals). The Association's general objectives for this non-federal program are to formulate, develop, and administer a program that provides this insurance at rates between 150-200% of the rates applicable for individual standard risks.

Upon the dissolution of either the entire Association or the non-federal program, the assets attributable to the non-federal program shall be used to satisfy all of the Association's outstanding liabilities and obligations attributable to this program. Any excess of assets over liabilities for this program shall be transferred to the State of Louisiana upon dissolution.

Policies for the non-federal program will be issued only to the extent that the losses will be covered by actuarially determined reserves.

The United States Congress enacted the Health Insurance Portability and Accountability Act of 1996 (HIPAA) in an attempt to improve the portability and continuity of health insurance coverage in the group and individual markets. HIPAA delegated the primary responsibility of enforcing these protections to the individual states.

In an attempt to be in compliance with the federal requirements described in HIPPA, the State of Louisiana passed Act No. 1154 during its 1998 regular session. This Act designated the Louisiana Health Insurance Association as the mechanism which the State of Louisiana will utilize to insure the availability of comprehensive health coverage to Louisiana citizens who lose their group health coverage and are guaranteed access to continuing coverage (federally defined eligible individuals).

While the Association will be responsible for administering both programs, Act No. 1154 does require the Association to maintain two separate set of accounts (one for federally eligible individuals and one for non-federally eligible individuals).



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Use of estimates

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

While management and its actuaries use available information in estimating the Association's claims payable liability, changes in the filing tendencies of its participants and healthcare costs could result in further adjustments to this account. As such, it is reasonably possible that the estimated claims payable liability may change materially in the near term. The amount of the change that is reasonably possible, however, cannot be estimated.

Investments

Under Louisiana Revised Statute 39:1271, the Association may invest its excess funds in United States bonds, treasury notes or certificates, any other federally insured investment, or mutual and trust fund institutions which are registered with the Securities and Exchange Commission and have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

The Association follows the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under the provisions of SFAS No. 124, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value, as determined by quoted market prices, in the statements of financial position. Unrealized gains and losses are recorded in the statements of activities as increases or decreases in unrestricted net assets. Dividend, interest, and other investment income is recorded as an increase in unrestricted net assets unless the use is restricted by the donor.

Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold, using the specific identification method. These realized gains and losses flow through the Association's yearly activities.

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that extend the life of these assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation and amortization are computed using the straight-line method over three and five year periods, the estimated useful lives of the assets.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in the statement of activities for that period.



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Mandated service charges

In accordance with state law, the Association charges insurance companies two dollars per day service fees for each of their participants admitted to a hospital for in-patient services and one dollar service fees for each of their participants admitted to an ambulatory surgery center or a hospital for out-patient surgery. Patients who are responsible for their own charges, as well as patients who are covered by Medicare or other government subsidized programs, are exempt from these fees.

Premiums

In accordance with state law, premium rates are actuarially determined on an annual basis, or more frequently, if management deems it necessary. Factors affecting the rates include the amount of coverage provided, risk experience, demographics, expenses associated with providing coverage, and the rates charged by other insurance companies in the area for comparable policies. Premiums are recognized as revenue over the period covered.

Insurance company assessments

In accordance with state law, the Association shall recoup all verified deficit amounts attributable to federally defined eligible individuals (HIPAA) by assessing fees to all insurers who provide health insurance to Louisiana citizens. The fees are assessed in proportion to the insurers' gross premiums earned on business in Louisiana for the most recent calendar year for which information is available. The assessments are recognized as revenue during the period they become due.

Claims expense and claims payable

Claims expense consists of both the actual claims paid during the current year and any adjustments to the estimate of claims that have been incurred but not reported and reported claims that have not been settled.

The Association establishes a claims liability based on estimates, provided by the actuarial consultants, of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. These estimates are based primarily on past experience. These liabilities are necessarily based on estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. Any adjustments to these estimates are reflected in that year's statement of activity.

Uncollectible accounts

Receivables are closely monitored during the year, and all accounts considered to be uncollectible are written-off when such conclusions are reached.



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Statements of cash flows

For the purpose of the statements of cash flows, the Association considers all amounts in demand deposit accounts and interest-bearing demand deposit accounts to be cash and cash equivalents.

Basis of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Association 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. The Association does not have any temporarily restricted or permanently restricted net assets.

Reclassification

Certain amounts in the 1998 financial statements have been reclassified to conform with the current year presentation.

2. Investments

The Association's investments are uninsured and unregistered. The securities are held by a local bank's trust department, but not in the Association's name. The amortized costs and estimated fair values of investments held in trust as of December 31, 1999 and 1998, are as follows:

	December 31, 1999			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 1,042,009	\$ -	\$ -	\$ 1,042,009
United States Treasury Notes	11,568,705	47,995	161,807	11,454,893
Mortgage Backed Securities guaranteed by U. S. Government Agencies	3,685,229	143	44,041	3,641,331
	\$ 16,295,943	\$ 48,138	\$ 205,848	\$ 16,138,233



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

2. Investments (continued)

	December 31, 1998			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 2,896,541	\$ -	\$ -	\$ 2,896,541
United States Treasury Notes	9,009,037	458,733	-	9,467,770
Mortgage Backed Securities guaranteed by U. S. Government Agencies	2,264,410	16,761	1,558	2,279,613
	<u>\$ 14,169,988</u>	<u>\$ 475,494</u>	<u>\$ 1,558</u>	<u>\$ 14,643,924</u>

The following schedule summarizes the investment revenues and their classification in the statement of activities for the years ended December 31, 1999 and 1998:

	1999	1998
Interest revenues, including the amortization of premiums and discounts	\$ 909,509	\$ 867,755
Change in net unrealized appreciation of investments	(631,646)	221,322
	<u>\$ 277,863</u>	<u>\$ 1,089,077</u>

The amortized costs and estimated market values of debt securities at December 31, 1999, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	\$ 5,322,213	\$ 5,295,635
Greater than one but within five years	7,871,853	7,800,945
Greater than five but within ten years	2,599,808	2,550,533
Greater than ten years	502,069	491,120
	<u>\$ 16,295,943</u>	<u>\$ 16,138,233</u>



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

3. Claims Payable

The claims payable liabilities of \$3,115,750 and \$1,273,595 reported at December 31, 1999 and 1998, respectively, are based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the liability can be reasonably estimated.

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	1999	1998
Unpaid claims and claims adjustment expenses at beginning of year	\$ 1,273,595	\$ 1,302,950
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	7,586,309	5,793,651
Decrease in the provision for insured events of prior fiscal years	(205,577)	(194,049)
Total incurred claims and claim adjustment expenses	7,380,732	5,599,602
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	4,470,559	4,520,056
Claims and claims adjustment expenses attributable to insured events of the prior fiscal years	1,068,018	1,108,901
Total payments	5,538,577	5,628,957
Unpaid claims and claims adjustment expenses at end of year	\$ 3,115,750	\$ 1,273,595

As a result of changes in estimates of incurred events in prior years, the provision for claims and claim adjustment expenses decreased by \$205,577 and \$194,049 for the years ended December 31, 1999 and 1998, respectively. These changes were due to the lower-than-anticipated development of claims.



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

4. Lease Commitments

The Association leases its office facilities under an agreement which requires the Association to make monthly payments ranging from \$1,833 to \$2,083 until the termination of the lease agreement in August 2001.

The Association's future minimum lease liabilities under this operating lease are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2000	\$ 24,333
2001	<u>16,666</u>
	<u>\$ 40,999</u>

Total rent expense on operating leases was approximately \$27,000 and \$25,700 during the years ended December 31, 1999 and 1998, respectively.

5. Income Taxes

During the year ended December 31, 1997, the Internal Revenue Service determined that the Association is exempt from federal income taxes under Section 501(c)(26) of the Internal Revenue Code. The effective date of this ruling is January 1, 1998.

6. Capital and Surplus Requirements

The Louisiana insurance regulations require the Association to maintain a minimum capital and surplus level of \$3,000,000. The Board formally designated a portion of its unrestricted net assets for this purpose, and this designation is reflected on the financial statements accordingly.



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTAL INFORMATION**

Board of Directors
Louisiana High Risk Health Pool, Inc.
d/b/a Louisiana Health Insurance Association
Baton Rouge, Louisiana

Our report on the basic financial statements of Louisiana High Risk Health Pool, Inc. (a not-for-profit organization) d/b/a Louisiana Health Insurance Association as of and for the years ended December 31, 1999 and 1998, appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules contained on pages 17 through 22 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information was subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 16, 2000

LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

HIGH RISK HEALTH POOL (NON-FEDERALLY DEFINED INDIVIDUALS)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Investments	\$ 14,754,728	\$ 14,294,740
Cash and cash equivalents	77,685	109,230
Accrued interest receivable	231,700	161,256
Due from HIPAA pool	53,770	-
Property and equipment (net of accumulated depreciation and amortization of \$62,477 and \$54,050, respectively)	20,332	19,926
Total assets	\$ 15,138,215	\$ 14,585,152

LIABILITIES AND NET ASSETS

LIABILITIES

Claims payable	\$ 2,547,384	\$ 1,149,995
Accounts payable	17,745	-
Payroll taxes payable	929	961
Total liabilities	2,566,058	1,150,956

NET ASSETS

Unrestricted		
Designated by the Board of Directors for the capital and surplus requirements of Louisiana insurance laws and regulations	3,000,000	3,000,000
Undesignated	9,572,157	10,434,196
Total unrestricted net assets	12,572,157	13,434,196
 Total liabilities and net assets	 \$ 15,138,215	 \$ 14,585,152



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

HIGH RISK HEALTH POOL (NON-FEDERALLY DEFINED INDIVIDUALS)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>REVENUES</u>		
State appropriations	\$ 2,000,000	\$ 2,000,000
Mandated service charges	579,836	453,154
Premiums	2,461,327	2,233,502
Investment revenues	231,520	1,045,968
Net gain (loss) on sales of investments	(3,866)	(9,594)
	<u>5,268,817</u>	<u>5,723,030</u>
<u>CLAIMS EXPENSES</u>		
Claims administration	116,865	89,047
Claims payments	4,294,960	5,245,599
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	1,397,389	(152,955)
	<u>5,809,214</u>	<u>5,181,691</u>
<u>OPERATING EXPENSES</u>		
Advertising	430	31
Bank and trustee fees	34,932	18,366
Computer services	63,427	54,075
Consultant - actuary	15,961	13,304
Copy usage and supplies	4,419	3,746
Depreciation and amortization	8,427	8,632
Insurance	6,961	7,871
Maintenance	2,154	1,583
Miscellaneous expenses	3,185	2,378
Office supplies	7,808	3,163
Payroll taxes	6,224	5,226
Postage	6,388	7,068
Professional education	1,145	298
Professional fees	46,480	16,897
Rent	13,506	13,603
Salaries and wages	91,657	67,110
Subscriptions and dues	562	596
Telephone and utilities	6,007	4,646
Travel expenses	1,969	3,233
	<u>321,642</u>	<u>231,826</u>



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

HIGH RISK HEALTH POOL (NON-FEDERALLY DEFINED INDIVIDUALS)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>CHANGE IN NET ASSETS</u>	\$ (862,039)	\$ 309,513
Net assets - beginning of year	13,434,196	13,124,683
Net assets - end of year, including the \$3,000,000 designated by the Board of Directors for the capital and surplus requirements of Louisiana insurance laws and regulations	\$ 12,572,157	\$ 13,434,196
 <u>Additional disclosures of claims activity:</u>		
Claims payable - beginning of year	\$ 1,149,995	\$ 1,302,950
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	1,397,389	(152,955)
Claims payable - end of year	\$ 2,547,384	\$ 1,149,995

LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

HIPAA POOL (FEDERALLY DEFINED ELIGIBLE INDIVIDUALS)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Investments	\$ 1,383,505	\$ 349,184
Cash and cash equivalents	33,946	56,222
Accrued interest receivable	7,916	2,877
Total assets	\$ 1,425,367	\$ 408,283

LIABILITIES AND NET ASSETS

LIABILITIES

Claims payable	\$ 568,366	\$ 123,600
Accounts payable	2,941	-
Unearned revenues	-	4,907
Due to high risk health pool	53,770	-
Total liabilities	625,077	128,507

NET ASSETS

Unrestricted	800,290	279,776
Total unrestricted net assets	800,290	279,776
Total liabilities and net assets	\$ 1,425,367	\$ 408,283



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

HIPAA POOL (FEDERALLY DEFINED ELIGIBLE INDIVIDUALS)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
<u>REVENUES</u>		
Insurance company assessments	\$ 2,149,229	\$ 1,061,006
Premiums	629,385	166,659
Investment revenues	46,343	43,109
	<u>2,824,957</u>	<u>1,270,774</u>
<u>CLAIMS EXPENSES</u>		
Claims administration	24,220	8,445
Claims payments	1,102,532	285,866
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	444,766	123,600
	<u>1,571,518</u>	<u>417,911</u>
<u>OPERATING EXPENSES</u>		
Advertising	3,156	54,071
Agent commissions	1,464	-
Bank and trustee fees	5,400	1,498
Computer services	25,989	25,794
Consultant - actuary	18,822	7,588
Copy usage and supplies	8,838	15,068
Insurance	12,928	16,815
Maintenance	2,154	1,583
Miscellaneous expenses	3,162	2,355
Office supplies	11,090	4,436
Payroll taxes	11,559	9,503
Postage	12,455	9,686
Professional education	1,900	298
Professional fees	62,524	119,033
Rent	13,506	12,082
Salaries and wages	166,494	121,614
Subscriptions and dues	1,376	1,458
Telephone and utilities	9,649	7,217
Travel expenses	2,056	3,164
Uncollectible accounts	358,403	33,896
	<u>732,925</u>	<u>447,159</u>



LOUISIANA HIGH RISK HEALTH POOL, INC.
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BATON ROUGE, LOUISIANA

HIPAA POOL (FEDERALLY DEFINED ELIGIBLE INDIVIDUALS)
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
<u>CHANGE IN NET ASSETS</u>	\$ 520,514	\$ 405,704
Net assets - beginning of year	279,776	(125,928)
Net assets - end of year	\$ 800,290	\$ 279,776
 <u>Additional disclosures of claims activity:</u>		
Claims payable - beginning of year	\$ 123,600	\$ -
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	444,766	123,600
Claims payable - end of year	\$ 568,366	\$ 123,600



LOUISIANA HIGH RISK HEALTH POOL, INC.
d/b/a LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 1999

A. Summary of Audit Results:

- (1) The independent auditors' report expressed an unqualified opinion on the financial statements of Louisiana High Risk Health Pool, Inc. as of and for the year ended December 31, 1999.
- (2) One reportable condition relating to the audit of the financial statements is reported at section B-1 in this schedule. This condition is not considered a material weakness.
- (3) No instances of noncompliance material to the financial statements of the Louisiana High Risk Health Pool, Inc. were disclosed during the audit.

B. Reportable Conditions:

- (1) Lack of Segregation of Duties

Condition - the performance of accounting procedures is limited to one person.

Criteria - segregation of duties is an integral part of internal controls; as such, policies and procedures should be in place that provide reasonable assurance that financial transactions are properly recorded.

Effect - the segregation of duties is inadequate to provide effective internal control.

Recommendation - no action is recommended.

Management's response - we concur with the finding and the recommendation. Compensating controls do exist, and the Board of Directors has decided that it would not be cost effective to increase the size of the administrative staff to achieve effective segregation of duties.