3. INVESTMENTS

At December 31, 1996, the amortized cost and estimated fair value of the portfolio are: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds Not Backed by Loans	$160,163	$14	$4,319	$155,858
Government Bonds Backed by Loans	63,568			63,568
U. S. Agency Bonds Not Backed by Loans	54,833	266	1	55,098
U. S. Agency Bonds Backed by Loans	131,813			131,813
Collateralized Mortgage Obligations	34,459			34,459
Total Bonds	$444,836	$280	$4,320	$440,796
Common Stock	$15,641	$1,187	$254	$16,574

At December 31, 1995, the amortized cost and estimated fair value of the portfolio are: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds Not Backed by Loans	$162,393	$1,947	$172	$164,168
Government Bonds Backed by Loans	82,281			82,281
U. S. Agency Bonds Not Backed by Loans	71,099	1,276	11	72,364
U. S. Agency Bonds Backed by Loans	53,484			53,484
Collateralized Mortgage Obligations	35,250			35,250
Total Bonds	$404,507	$3,223	$183	$407,547

The expected maturity at December 31, 1996, is: (in thousands)

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 11,539	$11,537
Due after one year through five years	86,055	85,289
Due after five years through ten years	73,412	72,060
Due after ten years	43,990	42,070
Mortgage-backed securities	229,840	229,840
Total Bonds	$444,836	$440,796

Actual cash flows may differ from projected cash flows as a result of the borrower's ability to prepay without call or prepayment penalties.

h. Premiums Earned
Insurance premiums are generally recognized as earned on a pro rata basis over the policy term. The portion of collected premiums that will be earned in future periods are deferred and reported as unearned premiums. The portion of premiums that has been earned and will be billed in arrears on a monthly or quarterly basis is recognized as earned and reported as earned but unbilled premiums. Earned but unbilled premiums are reported net of applicable accrued reinsurance of $2,879,000 and $4,604,000 at December 31, 1996 and 1995.

i. Reinsurance
The Corporation maintains reinsurance agreements with other insurance companies which provide for recovery of claims to the extent that such claims exceed $250,000 on a per occurrence basis during the reinsurance coverage period. The Corporation remains liable to the extent reinsuring companies are unable to meet their treaty obligations and for that portion of individual claims which exceeds $100,000,000. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsurance ceded are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for loss and loss adjustment expense reserves have been reported as reductions of these items.

The Corporation evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from economic characteristics of its reinsurers to minimize its exposure to significant losses from reinsurance insolvencies. At December 31, 1996, the Corporation held collateral under reinsurance agreements in the form of letters of credit totaling $12,273,000 and had no significant concentrations of credit risk associated with reinsurance assets.

j. Income Taxes
The Corporation is a nonprofit organization created by the State of Louisiana to provide a residual market for workers' compensation insurance. The Corporation maintains that it is tax-exempt for federal income taxes, as well, because it performs a state function by providing state mandated workers' compensation insurance coverage to employers who cannot obtain the coverage elsewhere. The Corporation filed applications for tax exempt status with the Internal Revenue Service (IRS) and after meetings and conversations with the IRS withdrew them without final determination by the IRS. The Corporation annually files income tax returns stating that it is tax exempt and has had no correspondence from the IRS indicating otherwise. If the IRS determines that the Corporation is taxable, it may have a material impact on the financial statements. The Corporation has estimated the range of this potential impact at December 31, 1996, to be $0 to $66,000,000 plus discretionary penalties and interest, if any.

k. Reclassifications
Certain amounts reported in the 1995 financial statements have been reclassified to conform with the 1996 presentation.

This letter is furnished solely to enable you to comply with the Louisiana Insurance Department requirements referred to herein and with the National Association of Insurance Commissioner Annual Statement Instructions and should be used for no other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

P&N

6. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for losses and loss adjustment expenses is summarized as follows (in thousands):

	1996	1995
Direct balance at January 1,	$330,956	$270,793
Less reinsurance recoverables	15,657	34,088
Net balance at January 1,	$315,299	$236,705
Net incurred related to:		
Current year	$150,319	$164,402
Prior years	(13,536)	(1,424)
Total incurred	$136,783	$162,978
Net paid related to:		
Current year	$ 29,894	$30,760
Prior years	62,460	53,624
Total paid	$ 92,354	$84,384
Direct balance at December 31,	$401,544	$330,956
Less reinsurance recoverables	41,816	15,657
Net balance at December 31,	$359,728	$315,299

As a result of changes in estimates of incurred events in prior years, the provision for losses and loss adjustment expenses (net of reinsurance recoveries) decreased by $13,553,000 and $1,424,000 in 1996 and 1995 because of lower-than-anticipated losses on the development of the claims.

7. REINSURANCE ACTIVITY

The Corporation limits its loss exposure by ceding all risks in excess of $250,000 per accident with other insurers through general reinsurance treaties. Ceded insurance is treated as the risk and liability of the assuming company. Amounts pertaining to reinsurance premiums which were deducted from premiums earned were approximately $19,001,000 and $27,500,000 for the years ending December 31, 1996 and 1995.

8. POLICYHOLDERS' SURPLUS

Without admitting liability therefore and pursuant to the recommendation found in the Louisiana Department of Insurance report of examination as of December 31, 1994, the Corporation has restricted policyholders' surplus in the amount of $40,000,000 in the event the IRS should determine that the Corporation is taxable (See Note 2j). This restriction reduces the amount of policyholders' surplus available for dividends.

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Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS
8550 UNITED PLAZA BLVD., SUITE 1001 • BATON ROUGE, LOUISIANA 70809 • TELEPHONE (504) 922-4600 • FAX (504) 922-4611

The Board of Directors
Louisiana Workers' Compensation Corporation

In planning and performing our audit of the financial statements of Louisiana Workers' Compensation Corporation (the Corporation) for the year ended December 31, 1996, we considered its internal control structure 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 structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the board of directors, management, and others within the Corporation and for purposes of filing with insurance regulatory authorities and the Louisiana Legislative Auditor's Office and should not be used for other purposes.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

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INDEPENDENT AUDITORS' ANNUAL LETTER OF QUALIFICATION

Board of Directors
Louisiana Workers' Compensation Corporation

We have audited the statutory-basis financial statements of Louisiana Workers' Compensation Corporation (the Corporation) as of December 31, 1996 and for the year then ended and have issued our report thereon dated April 23, 1997. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Corporation and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Louisiana Board of Public Accountancy.

b. The personnel assigned to the audit of the Corporation have the competence and experience to perform such an audit. The engagement director and manager have been with our firm for twelve years and six years, respectively, and are experienced in auditing insurance companies. Staff personnel, most of whom have experience in auditing insurance enterprises and 80% of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Corporation intends to file its audited statutory financial statements and our report thereon with the Louisiana Insurance Department and other state insurance departments in states in which the Corporation is licensed and that the insurance commissioners of those states will be relying on that information in monitoring and regulating the statutory financial condition of the Corporation.

   While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Corporation and insurance commissioners should understand that the objective of an audit of statutory financial statements in accordance with generally accepted auditing standards is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus, results of operations and cash flow in conformity with accounting practices prescribed or permitted by the Louisiana Insurance Department. Consequently, under generally accepted auditing standards, we have the responsibility, within the inherent limitations of the auditing process, to design our audit to obtain reasonable assurance that errors and irregularities that have a material effect on the statutory financial statements will be detected and to exercise due care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on the financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting irregularities. Because of the characteristics of irregularities, particularly those involving forgery and collusion, a properly designed and executed audit may not detect a material irregularity. In addition, an audit does not address the possibility that material errors or irregularities may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by insurance commissioners.

It is the responsibility of the management of the Corporation to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Louisiana Insurance Department.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

d. We will retain the workpapers prepared in the conduct of our audit until the Louisiana Insurance Department has filed a Report of Examination covering 1996, but not longer than seven years, and, on instructions from the Corporation, will make them available for review by the Louisiana Insurance Department.

e. This is the second year the engagement director has served in that capacity with respect to the Corporation. The engagement director is licensed by the Louisiana Board of Public Accountancy and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's *Model Rule (Regulation) Requiring Annual Audited Financial Reports* regarding qualifications of independent certified public accountants.

Financial Statements for the Years Ended December 31, 1996 and 1995 and Independent Auditors' Report

Supplemental Statement of Board Member Compensation and Independent Auditors' Report

Independent Auditors' Report on the Internal Control Structure based on an Audit of the Financial Statements

Independent Auditors' Report on Compliance Based on an Audit of the Financial Statements

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Postlethwaite & Netterville

A Professional Accounting Corporation

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Louisiana Workers' Compensation Corporation

We have audited the accompanying consolidated balance sheets of Louisiana Workers' Compensation Corporation (the Corporation) as of December 31, 1996 and 1995, and the related statements of consolidated operations, changes in consolidated policyholders' equity, and consolidated cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Workers' Compensation Corporation as of December 31, 1996 and 1995, 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 April 23, 1997 on our consideration of Louisiana Workers' Compensation Corporation's internal control structure and a report dated April 23, 1997 on its compliance with laws and regulations.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

DONALDSONVILLE • GONZALES • NEW ORLEANS • ST. FRANCISVILLE
ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

1. ORGANIZATION

Louisiana Workers' Compensation Corporation (the Corporation) is a nonprofit private mutual insurance company established in 1991 by legislative approval of Act 814 (the Act) of the 1991 Regular Session of the State of Louisiana legislature and subsequent voter approval of a constitutional amendment. Louisiana Revised Statues (LRS) 23:1404B (1) provides that "*Should the corporation's assets be insufficient to pay claims as they become due, then the full faith and credit of the state of Louisiana shall be pledged . . . for the payment of claims. This full faith and credit guarantee shall expire in five years or at such time as the United States Department of Labor approves United States Longshore and Harbor Worker's Act coverage by the corporation without such security, whichever occurs later.*" The Corporation provides workers' compensation insurance coverage to employers in Louisiana and began issuing policies on October 1, 1992.

On September 6, 1996, the Corporation formed a nonprofit non-stock subsidiary, LWCC Multi-State Facility Agency, Inc. (the Agency) without capital infusion. This subsidiary functions as an insurance agency which facilitates the solicitation and negotiation of insurance policies with Louisiana employers with exposures outside of Louisiana as authorized by LRS § 23:1393A(2). Insurance policies with non-Louisiana exposures are placed with a national insurance company which pays the Agency a commission. The purpose of the Agency is not to make a profit, but to provide a single location for the processing of applications, payments, and claims for the insureds with both Louisiana and non-Louisiana exposures and to assist the Corporation in retaining existing policies and producing new Louisiana business. The Agency expects to pass the commissions it receives from the partnered insurance company in excess of its expenses to the independent agents producing the business. Intercompany balances have been eliminated in preparation of these consolidated financial statements.

The Corporation is not an agency or division of the State of Louisiana nor has it ever received any state or federal funding. These financial statements are discretely presented in the State of Louisiana Comprehensive Annual Financial Report under the guidance of Governmental Accounting Standards Number 14 *The Financial Reporting Entity* because the State of Louisiana has provided its full faith and credit to the Corporation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation
These financial statements are presented in conformity with generally accepted accounting principles. The application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from those estimates.

The Corporation is regulated by the Insurance Department of the State of Louisiana using accounting practices prescribed or permitted by that insurance department. At December 31, 1996 and 1995, the Corporation's policyholders' equity under these accounting practices was approximately $95,655,000 and $70,892,000. Of these amounts, $3,000,000 was required to satisfy minimum capital requirements in each year. Without admitting liability therefore and pursuant to the recommendation found in the Louisiana Department of Insurance report of examination as of December 31, 1994, the Corporation restricted policyholders' surplus in the amount of $40,000,000 and $31,000,000 at December 31, 1996 and 1995 in the event the Internal Revenue Service should determine that the Corporation is

LOUISIANA WORKERS' COMPENSATION CORPORATION
Statements of Consolidated Cash Flows
Years Ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Net income	$ 16,645	$ 24,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,555	2,718
Amortization of deferred start-up costs	475	473
Gain on sales of investments	(223)	(704)
Net amortization of bond premium	913	823
Increase in premiums receivable	(1,667)	(8,532)
Increase in allowance for doubtful accounts	4,300	3,425
(Increase) decrease in recoverable from reinsurer	(26,223)	18,314
(Increase) decrease in deferred policy acquisition costs	(270)	564
Increase in other assets	(971)	(1,178)
Increase in losses and loss adjustment expenses	70,588	60,163
Increase in unearned premium reserve	2,774	
Increase in contingent commissions	304	
Increase in other expenses due and payable	13,469	10,979
Net cash provided by operating activities	82,669	111,603
Cash flows from investing activities:		
Purchase of investments	(136,028)	(172,126)
Proceeds from paydowns and sales of investments	56,497	29,059
Proceeds from sales (purchases) of equipment	712	(4,385)
Net cash used in investing activities	(78,819)	(147,452)
Cash flows from financing activities:		
Decrease in policyholders' deposits	(22,866)	(13,704)
Net cash used in financing activities	(22,866)	(13,704)
Net decrease in cash and cash equivalents	(19,016)	(49,553)
Beginning cash and cash equivalents	47,163	96,716
Ending cash and cash equivalents	$ 28,147	$ 47,163

See notes to consolidated financial statements.

LOUISIANA WORKERS' COMPENSATION CORPORATION
Consolidated Balance Sheets
(in thousands)

ASSETS	December 31, 1996	December 31, 1995
Cash and cash equivalents	$ 28,147	$ 47,163
Investments - Note 3	456,188	387,033
Premiums receivable (net of allowance of $11,300,000 in 1996 and $7,000,000 in 1995)	41,968	44,601
Recoverable from reinsurer	42,206	15,983
Fixed assets less accumulated depreciation - Note 5	15,888	19,155
Deferred policy acquisition costs - Note 4	609	339
Deferred start-up costs - Note 10	356	831
Other assets	6,350	5,379
TOTAL ASSETS	$ 591,712	$ 520,484

LIABILITIES AND POLICYHOLDERS' EQUITY

	1996	1995
Liabilities		
Losses and loss adjustment expenses - Note 6	$ 401,544	$ 330,956
Unearned premium reserve	2,774	
Contingent commissions	304	
Policyholders' deposits	31,657	54,523
Premium taxes and other liabilities	53,325	39,856
TOTAL LIABILITIES	489,604	425,335
Policyholders' equity		
Equity	103,903	87,258
Net unrealized investment gains (losses)	(1,795)	7,891
TOTAL POLICYHOLDERS' EQUITY	102,108	95,149
TOTAL LIABILITIES AND POLICYHOLDERS' EQUITY	$ 591,712	$ 520,484

See notes to consolidated financial statements.

taxable (See Note 2k). This restriction reduces the amount of policyholders' surplus available for dividends. The Corporation had net income under these accounting practices of approximately $21,510,000 and $28,761,000 for the years ending December 31, 1996 and 1995.

b. Certificates of Deposits and Cash and Cash Equivalents
Certificates of deposits in excess of the federally insured limit of $100,000 are collateralized by the issuing financial institutions. Certificates of deposits and cash equivalents owned have maturity dates of less than ninety days and have fair values approximating carrying amounts.

For purposes of reporting cash flows, cash and cash equivalents include cash on deposit and highly liquid investments, both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of changes in value.

c. Investments
The Corporation classifies its investments as trading, available for sale or held to maturity based upon its intent and ability to hold the investment. This classification is made at the acquisition date of the security and is reassessed at each year end. Realized gains and losses on sales of investments are recognized in net income using the specific identification basis. Unrealized gains and losses on trading securities are reflected in earnings and the related asset is stated at market value. Unrealized gains and losses on available for sale securities are reflected as an adjustment of policyholders' equity and accordingly, have no effect on income and the related asset is stated at market value. Investments classified as held to maturity are stated at amortized cost. The estimated fair values of the securities are based on quoted market prices or dealer quotes.

d. Fixed Assets and Depreciation
The fixed assets owned by the Corporation are carried at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the equipment, generally 5 years. The depreciation on the building is computed on a straight line basis over the estimated useful life of 40 years.

e. Losses and Loss Adjustment Expenses
Losses and loss adjustment expenses includes an amount determined from loss reports on individual cases, estimates of the cost of claims incurred but not reported, and estimates of expenses for processing and investigation of claims. Such 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. Due to the Corporation issuing policies since October 1, 1992, historical claims information normally used to evaluate the prior claims experience factor of the losses incurred is limited. Accordingly, the loss liabilities were developed from NCCI Louisiana state-wide risk data for the years 1976 through 1993. The Corporation will continue to use NCCI risk data to calculate insurance liabilities until it has developed enough of its own credible data. The NCCI risk data was developed and trended, using standard actuarial techniques, to meet the Corporation's premium rate structure and experience. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are currently reflected in earnings.

f. Deferred Policy Acquisition Costs
Costs of acquiring new and renewal business are capitalized and charged to expense in proportion to premium revenue earned.

Net investment income and gross realized gains and losses for the years ending December 31, 1996 and 1995 are: (in thousands)

	December 31, 1996			December 31, 1995	
	Net Investment Income	Gross Realized Gains	Gross Realized Losses	Net Investment Income	Gross Realized Gains
Government Bonds Not Backed by Loans	$ 9,485		$155	$ 8,967	$ 75
Government Bonds Backed by Loans	5,726	$261	70	5,197	
U. S. Agency Bonds Not Backed by Loans	4,374		6	5,016	629
U. S. Agency Bonds Backed by Loans	6,512	2		2,533	
Collateralized Mortgage Obligations	2,079			2,009	
Common Stock	165	203	12		
Other	3,430			3,488	1
Total	$31,771	$466	$243	27,210	$705
Investment Expenses	(1,758)			(1,881)	
Total	$30,013			$25,329	

There were no realized losses in 1995.

4. HOME OFFICE PROPERTY

At December 31, 1996, and 1995 home office property consisted of the following: (in thousands)

	1996	1995
Cost	$11,603	$10,189
Accumulated depreciation	(556)	(300)
Total	$11,047	$ 9,889
Depreciation expense	$ 256	$ 229

5. ELECTRONIC DATA PROCESSING EQUIPMENT

At December 31, 1996 and 1995, admitted electronic data processing equipment consisted of the following: (in thousands)

	1996	1995
Cost	$2,804	$5,216
Accumulated depreciation	(1,601)	(2,251)
Total	$1,203	$2,965
Depreciation expense	$ 578	$ 853

LOUISIANA WORKERS' COMPENSATION CORPORATION
Statements of Consolidated Operations
Years Ended December 31, 1996 and 1995
(in thousands)

	1996	1995
Premiums earned - Note 7	$ 179,480	$ 212,531
Net investment income	29,269	24,637
Other income	1,333	2,920
Total revenues	210,082	240,088
Underwriting expenses:		
Losses incurred	114,106	154,330
Loss adjustment expenses	22,121	7,916
Underwriting expenses:		
Commissions	16,310	14,282
Premium taxes	10,767	16,018
General and administrative	22,481	17,532
Other expenses	7,652	5,452
Total underwriting expenses	193,437	215,530
Net income	$ 16,645	$ 24,558

See notes to consolidated financial statements.

Statements of Changes in Consolidated Policyholders' Equity
Years Ended December 31, 1996 and 1995
(in thousands)

	1996	1995
Balance - beginning of year	$ 95,149	$ 38,065
Net income	16,645	24,558
Change in net unrealized investment holding gains or losses	(9,686)	32,526
Balance - end of year	$ 102,108	$ 95,149

See notes to consolidated financial statements

b. Investments
Bonds are carried at amortized cost. Common stock is carried at fair value. If the Securities Valuation Office of the NAIC determines that the drop in value of bonds is permanent, then the investment is carried at fair value. The Corporation had no such investments at December 31, 1996 or 1995. Investment income is recognized when earned. Estimated fair value was obtained from *Valuation of Securities* issued by the Securities Valuation Office of the National Association of Insurance Commissioners.

c. Certificates of Deposit and Cash and Cash Equivalents
Certificates of deposits in excess of the federally insured limit of $100,000 are collateralized by the issuing financial institutions. All of the certificates owned have maturity dates of less than one year.

For purposes of reporting cash flows, cash and cash equivalents include cash on deposit and highly liquid investments, both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of changes in value.

d. Data Processing Equipment and Depreciation
The data processing equipment owned by the Corporation is carried at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful life of the equipment (5 years).

e. Home Office Property
The home office property owned by the Corporation is carried at cost less accumulated depreciation. Depreciation is computed on a straight line basis over the estimated useful life of the building (40 years).

f. Insurance Liabilities
Losses and loss adjustment expense reserves includes an amount determined from loss reports on individual cases, estimates of the cost of claims incurred but not reported, and estimates of expenses for processing and investigation of claims. Such 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. Due to the Corporation issuing policies since October 1, 1992, historical claims information normally used to evaluate the prior claims experience factor of the losses incurred is limited. Accordingly, the loss liabilities were developed from NCCI Louisiana state-wide risk data for the years 1976 through 1993. The Corporation will continue to use NCCI risk data to calculate insurance liabilities until it has developed enough of its own credible data. The NCCI risk data was developed and trended, using standard actuarial techniques, to meet the Corporation's premium rate structure and experience. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are currently reflected in earnings.

g. Policyholders' Deposits
Policyholders' deposits represent amounts which have been collected from policyholders as security. The deposits are collected in advance of the policy year and the amount of the deposit is based on the estimated annual premium. The deposit is applied to any unpaid premiums and any balance remaining is refunded to the policyholder upon cancellation or termination of the policy. The policyholders' deposits are interest bearing to the policyholder. Interest expensed on policyholders' deposits is approximately $912,000 and $1,702,000 during 1996 and 1995 and is included in general and administrative expenses. Interest paid on policyholders' deposits was approximately $1,717,000 and $2,060,000 during 1996 and 1995.

9. COMMITMENTS

At December 31, 1996, the Corporation was committed under the terms of non-cancelable office and equipment leases as follows (in thousands):

Year	Office Leases	Equipment Leases
1997	$95	$989
1998	83	732
1999	74	140
2000	31	27
2001 and later	0	4

The Corporation expended approximately $1,178,000 and $310,000 during the years ending December 31, 1996 and 1995 for lease payments.

10. RETIREMENT PLAN

The Corporation sponsors a defined contribution pension plan covering substantially all of its employees. Contributions to the pension plan are at the Board of Directors' discretion. Contributions and costs incurred were 4% for each of the years 1996 and 1995 of each covered employee's salary and totaled approximately $418,000 and $338,000 for 1996 and 1995.

The Corporation also sponsors a savings plan covering all eligible employees. Participating employees may contribute up to 15% of their base salary with the Corporation matching up to 5%. Contributions expense of the Corporation was approximately $236,000 and $194,000 in 1996 and 1995.

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation conducts transactions with a board member. This board member is affiliated with an insurance agency which receives commissions for policies placed with the Corporation. The commissions paid are based on the standard rates used for all agents and were not significant to the Corporation in 1996 or 1995.

g. Deferred Start-Up Costs
Costs incurred prior to beginning operations have been deferred. These costs are being amortized over a five year period.

h. Policyholders' Deposits
Policyholders' deposits represent amounts which have been collected from policyholders as security. The deposits are collected in advance of the policy year and the amount of the deposit is based on the estimated annual premium. The deposit is applied to any unpaid premiums and any balance remaining is refunded to the policyholder upon cancellation or termination of the policy. The policyholders' deposits are interest bearing to the policyholder. Interest expensed on policyholders' deposits is approximately $912,000 and $1,702,000 during 1996 and 1995 and is included in general and administrative expenses. Interest paid on policyholders' deposits was approximately $1,717,000 and $2,060,000 during 1996 and 1995.

i. Premiums earned
Insurance premiums are generally recognized as earned on a pro rata basis over the policy term. The portion of collected premiums that will be earned in future periods are deferred and reported as unearned premiums. The portion of premiums that has been earned and will be billed in arrears on a monthly or quarterly basis is recognized as earned and reported as premiums receivable. Premiums receivable are periodically reviewed for collectibility and an estimated allowance is established.

j. Reinsurance
The Corporation maintains reinsurance agreements with other insurance companies which provide for recovery of claims to the extent such claims exceed $250,000 on a per occurrence basis during the reinsurance coverage period. The Corporation remains liable to the extent reinsuring companies are unable to meet their treaty obligations and for that portion of individual claims which exceeds $100,000,000. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsurance ceded are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income. Amounts applicable to reinsurance ceded for loss and loss adjustment expense reserves and amounts paid to the reinsurer relating to the unexpired portion of reinsurance contracts have been reported as assets.

The Corporation evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from economic characteristics of its reinsurers to minimize its exposure to significant losses from reinsurance insolvencies. At December 31, 1996, the Corporation held collateral under reinsurance agreements in the form of letters of credit totaling $12,273,000 and had no significant concentrations of credit risk associated with reinsurance assets.

k. Income Taxes
The Corporation is a nonprofit organization created by the State of Louisiana to provide a residual market for workers' compensation insurance. It maintains that it is tax-exempt for federal income taxes, as well, because it performs a state function by providing state mandated workers' compensation insurance coverage to employers who cannot obtain it elsewhere. The Corporation filed applications for tax exempt status with the Internal Revenue Service (IRS) and, after meetings and conversations with the IRS, withdrew them without final determination by the IRS. The

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Statutory Basis Financial Statements for the Years Ended December 31, 1996 and 1995 and Independent Auditors' Report

Contents

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Postlethwaite & Netterville
A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS
8550 UNITED PLAZA BLVD., SUITE 1001 • BATON ROUGE, LOUISIANA 70809 • TELEPHONE (504) 922-4600 • FAX (504) 922-4611

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Louisiana Workers' Compensation Corporation

We have audited the accompanying statutory balance sheets of Louisiana Workers' Compensation Corporation (the Corporation) as of December 31, 1996 and 1995, and the related statutory statements of operations, changes in policyholders' surplus and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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. 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.

As described more fully in Note 2a to the financial statements, these financial statements were prepared in conformity with the accounting practices prescribed or permitted by the Insurance Department of the State of Louisiana, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of the Corporation as of December 31, 1996 and 1995, or the results of its operations or its cash flows for the years then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Corporation at December 31, 1996 and 1995, and the results of its operations, changes in policyholders' surplus and cash flows for the year then ended, on the basis of accounting described in Note 2a.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

DONALDSONVILLE • GONZALES • NEW ORLEANS • ST. FRANCISVILLE
ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

Statutory Basis Balance Sheets
December 31, 1996 and 1995
(In thousands)

ADMITTED ASSETS

	1996	1995
Cash and cash equivalents	$ 4,476	$ 1,643
Certificates of deposit	21,100	20,100
Bonds	444,836	404,507
Common stock	16,574	
Premiums in course of collection	4,978	1,848
Earned but unbilled premiums	30,602	30,019
Home office property	11,047	9,889
Electronic data processing equipment	1,203	2,965
Other admitted assets	5,705	4,995
TOTAL ADMITTED ASSETS	$540,521	$475,966

LIABILITIES AND POLICYHOLDERS' SURPLUS

	1996	1995
Liabilities:		
Losses and loss adjustment expense reserves	$359,728	$315,299
Unearned premium reserves	2,774	
Contingent commissions	304	
Policyholders' deposits	31,657	54,523
Other expenses due and payable	50,403	35,252
TOTAL LIABILITIES	444,866	405,074
POLICYHOLDERS' SURPLUS	95,655	70,892
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	$540,521	$475,966

See notes to statutory basis financial statements.

Statutory Basis Statements of Operations
Years Ended December 31, 1996 and 1995
(In thousands)

	1996	1995
Premiums earned - Note 7	$179,480	$212,531
Underwriting expenses:		
Losses incurred	114,106	154,330
Loss adjustment expenses	22,798	8,647
Other underwriting expenses:		
Commissions	16,303	12,938
Premium taxes	10,767	16,018
General and administrative	22,094	17,734
Total underwriting expenses	186,068	209,667
Underwriting Income (Loss)	(6,588)	2,864
Net investment income	30,013	25,329
Net realized capital gains	223	705
Other expenses - net	(2,138)	(137)
Net Income	$ 21,510	$ 28,761

See notes to statutory basis financial statements.

Statutory Basis Statements of Changes in Policyholders' Surplus
Years Ended December 31, 1996 and 1995
(In thousands)

	Unrealized Capital Gains - Net	Special Surplus Funds	Unassigned Surplus	Total Surplus
Balance, January 1, 1995			$48,666	$48,666
Net Income			28,761	28,761
Nonadmitted asset change			(6,535)	(6,535)
Surplus restriction		$31,000	(31,000)	
Balance, December 31, 1995		31,000	39,892	70,892
Net Income			21,510	21,510
Nonadmitted asset change			2,320	2,320
Change in unrealized capital gains - net	$933			933
Surplus restriction		9,000	(9,000)	
Balance, December 31, 1996	$933	$40,000	$54,722	$95,655

See notes to statutory basis financial statements.

1. ORGANIZATION

Louisiana Workers' Compensation Corporation (the Corporation) is a nonprofit private mutual insurance company established in 1991 by legislative approval of Act 814 (the Act) of the 1991 Regular Session of the State of Louisiana legislature and subsequent voter approval of a constitutional amendment. Louisiana Revised Statues 23:1404B (1) provides that *"Should the corporation's assets be insufficient to pay claims as they become due, then the full faith and credit of the state of Louisiana shall be pledged . . . for the payment of claims. This full faith and credit guarantee shall expire in five years or at such time as the United States Department of Labor approves United States Longshore and Harbor Worker's Act coverage by the corporation without such security, whichever occurs later."* The Corporation provides workers' compensation insurance coverage to employers in Louisiana and began issuing policies on October 1, 1992.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The financial statements of the Corporation have been prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of Louisiana. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

Significant differences between Statutory Accounting Practices (SAP) and Generally Accepted Accounting Principles (GAAP) are described below.

Cash, certificates of deposit, and bonds are classified based on type of investment for SAP and are classified based on the liquidity of the investment for GAAP. In addition, these investments are stated at amortized cost for SAP rather than fair value for GAAP. As a result, the total of SAP cash, certificates of deposit, and bonds is $2,728,000 greater and $7,946,000 less than GAAP carrying values as of December 31, 1996 and 1995.

Certain assets are designated as nonadmitted (principally furniture, equipment, uncollected premiums over 90 days old, automobiles, software and prepaid items) and are excluded from the balance sheets through a direct charge to surplus. As a result, equity and assets on a SAP basis are $19,289,000 and $21,609,000 less than on a GAAP basis as of December 31, 1996 and 1995.

Assets and liabilities relating to reinsurance contracts are stated net under SAP. As a result, assets and losses and loss adjustment expense reserves are $41,816,000 and $15,657,000 less for SAP as of December 31, 1996 and 1995 and earned but unbilled premiums and other expenses due and payable are $2,879,000 and $4,604,000 less for SAP as of December 31, 1996 and 1995.

Deferred policy acquisition costs are expensed under SAP while they are capitalized and amortized over the terms of the related premiums under GAAP. As a result, expenses under SAP are $270,000 greater and $564,000 less than under GAAP for the years ended December 31, 1996 and 1995. The corresponding deferred policy acquisition costs carried as an asset under GAAP of $609,000 and $339,000 as of December 31, 1996 and 1995 are not reflected as an asset under SAP.

FORM LS-513, REPORT OF PAYMENTS
NOTE TO FORM LS-513

1. BASIS OF REPRESENTATION

The form has been prepared in conformity with the Longshore and Harbor Workers' Compensation Act and Related Statutes (the Act).

The number of cases compensated is the number of incidents of injury or death for which compensation and medical payments were made during the year for claims paid during the year ended December 31, 1996.

Compensation Payments are the money allowances paid to an employee or his dependents for disability or death as provided for in the Act. Compensation payments include payments of indemnity in the same manner and at the same intervals as wages, funeral benefits, and in the case of permanent injury, any additional payments as set forth in the Act.

Medical Payments are the money allowances paid for such medical, surgical and other attendance or treatment, nursing and hospital services, laboratory, X-ray, and other technical services which the nature of the injury and the process of recovery may require. Medical payments also include necessary dental care and treatment, medicine, crutches or other apparatus and prosthetic devices, and any other medical service or supply, including the reasonable and necessary cost of travel incident thereto.

The amounts do not include accruals for liabilities incurred but unpaid at the end of the year.

LOUISIANA WORKERS' COMPENSATION CORPORATION

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
FORM LS-513, REPORT OF PAYMENTS
FOR THE YEAR ENDED DECEMBER 31, 1996

COMPENSATION ACT	Number of Cases Compensated	Compensation Payments	Medical Payments
Longshore	1,145	$8,692,493.95	$7,611,015.13
Defense Base	-	-	-
Nonappropriated Funds	-	-	-
Outer Continental Shelf	-	-	-
District of Columbia	-	-	-
Total Payments		$8,692,493.95	$7,611,015.13
Total Compensation and Medical Payments			**$16,303,509.08**

See note to Form LS-513

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Louisiana Workers' Compensation Corporation

We have audited the compensation and medical payments (as defined in the Longshore and Harbor Workers' Compensation Act, and Extensions, "the Act") included on the accompanying Form LS-513, Report of Payments of Louisiana Workers' Compensation Corporation for the year ended December 31, 1996. This form is the responsibility of the Company's management. Our responsibility is to express an opinion on Form LS-513 based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Form LS-513 is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Form LS-513. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the compensation and medical payments included on Form LS-513 referred to above present fairly, in all material respects, the compensation and medical payments made by Louisiana Workers' Compensation Corporation for the year ended December 31, 1996, as defined in the Act referred to in the first paragraph.

This report is intended solely for the information and use of the board of directors and management of Louisiana Workers' Compensation Corporation, the Louisiana Legislative Auditor's Office, and the U. S. Department of Labor, Division of Longshore and Harbor Workers' Compensation, and should not be used for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

LOUISIANA WORKERS' COMPENSATION CORPORATION

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LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
FORM LS-513, REPORT OF PAYMENTS
FOR THE YEAR ENDED DECEMBER 31, 1996

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Longshore and Harbor Workers' Compensation Act, Form LS-513, Report of Payments for the Year Ended December 31, 1996 and Independent Auditors' Report

5. FIXED ASSETS

At December 31, 1996 and 1995, fixed assets consisted of: (in thousands)

	1996	1995
Land	$ 605	$ 605
Building	10,998	9,584
Data processing assets	8,255	11,611
Automobiles	1,652	1,510
Furniture, fixtures, and equipment	1,760	2,224
Subtotal	23,270	25,534
Less accumulated depreciation	(7,382)	(6,379)
Net fixed assets	$15,888	$19,155
Depreciation expense	$ 2,555	$ 2,718

6. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for unpaid claims and claims adjustment expenses is summarized as follows (in thousands):

	1996	1995
Direct Balance at January 1,	$ 330,956	$ 270,793
Less Reinsurance Recoverables	15,657	34,088
Net Balance at January 1,	$ 315,299	$ 236,705
Net Incurred Related to:		
Current Year	$ 150,319	$ 164,402
Prior Years	(13,536)	(1,424)
Total Incurred	$ 136,783	$ 162,978
Net Paid Related to:		
Current Year	$ 29,894	$ 30,760
Prior Years	62,460	53,624
Total Paid	$ 92,354	$ 84,384
Direct Balance at December 31,	$ 401,544	$ 330,956
Less Reinsurance Recoverables	41,816	15,657
Net Balance at December 31,	$ 359,728	$ 315,299

As a result of changes in estimates of incurred events in prior years, the provision for losses and loss adjustment expenses (net of reinsurance recoveries) decreased by $13,553,000 and $1,424,000 in 1996 and 1995 because of lower-than-anticipated losses on the development of the claims.

7. REINSURANCE ACTIVITY

The Corporation limits its loss exposure by ceding all risks in excess of $250,000 per accident with other insurers through general reinsurance treaties. Amounts pertaining to reinsurance premiums which were deducted from premiums earned were approximately $19,001,000 and $27,500,000 for the years ending December 31, 1996 and 1995.

LWCC 0617

Corporation annually files income tax returns stating that it is tax exempt and has had no correspondence from the IRS indicating otherwise. Therefore, no provision has been made in these financial statements for income taxes. If the IRS determines that the Corporation is taxable, it may have a material impact on the financial statements. The Corporation has estimated the range of this potential impact to be $0 to $66,000,000 plus discretionary penalties and interest, if any.

I. Reclassifications

Certain amounts reported in the 1995 financial statements have been reclassified to conform with the 1996 presentation.

3. INVESTMENTS

At December 31, 1996 and 1995, all investments were classified as available for sale and were registered in the Corporation's name. At December 31, 1996, the amortized cost and estimated fair value of the portfolio are: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds Not Backed by Loans	$160,163	$ 31	$4,381	$155,813
Government Bonds Backed by Loans	63,568	1,825	212	65,181
U. S. Agency Bonds Not Backed by Loans	52,339	578	417	52,500
U. S. Agency Bonds Backed by Loans	131,813	1,227	1,071	131,969
Collateralized Mortgage Obligations	34,459		308	34,151
Common Stocks	15,641	1,187	254	16,574
	$457,983	$4,848	$6,643	$456,188

At December 31, 1995, the amortized cost and estimated fair value of the portfolio are: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds Not Backed by Loans	$159,143	$1,870	$230	$160,783
Government Bonds Backed by Loans	82,281	3,813	19	86,075
U. S. Agency Bonds Not Backed by Loans	48,984	1,382	4	50,362
U. S. Agency Bonds Backed by Loans	53,484	1,194	44	54,634
Collateralized Mortgage Obligations	35,250	69	140	35,179
	$379,142	$8,328	$437	$387,033

(In thousands)

	1996	1995
Cash flows from operating activities:		
Net income	$ 21,510	$ 28,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,555	1,338
Net gain on sales of investments	(223)	(704)
Net amortization of bond premium	913	822
Decrease (increase) in premiums in course of collection	(3,130)	3,605
Increase in earned but unbilled premiums	(583)	(6,582)
Increase in other admitted assets	(710)	(1,491)
Increase in losses and loss adjustment expense reserves	44,429	78,594
Increase in contingent commissions	304	
Increase in unearned premium reserves	2,774	
Increase in other expenses due and payable	15,151	10,176
Net cash provided by operating activities	82,990	114,519
Cash flows from investing activities:		
Investments:		
Purchase of investments	(136,028)	(197,490)
Proceeds from sales and paydowns	79,368	29,059
Purchase of home office property	(1,414)	(934)
Proceeds from sales (purchases) of certificates of deposit	(1,000)	75,662
Proceeds from sales (purchases) of equipment	1,184	(503)
Proceeds from sales (purchases) of nonadmitted assets	599	(7,217)
Net cash used in investing activities	(57,291)	(101,423)
Cash flows from financing activities:		
Decrease in policyholders' deposits	(22,866)	(12,327)
Net cash used in financing activities	(22,866)	(12,327)
Net increase in cash and cash equivalents	2,833	769
Beginning cash and cash equivalents	1,643	874
Ending cash and cash equivalents	$ 4,476	$ 1,643

See notes to statutory basis financial statements.

The expected maturity at December 31, 1996, is: (in thousands)

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 9,045	$ 9,023
Due after one year through five years	86,055	85,355
Due after five years through ten years	73,412	71,853
Due after ten years	43,990	42,082
Mortgage-backed securities	229,840	231,301
Common Stocks	15,641	16,574
Total	$457,983	$456,188

Actual cash flows may differ from projected cash flows as a result of the borrower's ability to prepay without call or prepayment penalties. At December 31, 1996 all cash and cash equivalents were insured or collateralized with securities held by the Corporation or its agent in the Corporation's name.

Net investment income and gross realized gains and losses for the years ending December 31, 1996 and 1995 are: (in thousands)

	December 31, 1996			December 31, 1995	
	Net Investment Income	Gross Realized Gains	Gross Realized Losses	Net Investment Income	Gross Realized Gains
Government Bonds Not Backed By Loans	$ 9,485		$155	$ 8,967	$ 75
Government Bonds Backed by Loans	5,726	$261	70	5,197	
U. S. Agency Bonds Not Backed by Loans	3,370		6	3,645	629
U. S. Agency Bonds Backed by Loans	6,512	2		2,533	
Collateralized Mortgage Obligations	2,079			2,009	
Common Stock	165	203	12		
Other	2,409			2,859	1
Total	$29,746	$466	$243	25,210	$705
Investment Expenses	(477)			(573)	
Total	$29,269			$24,637	

There were no realized losses in 1995. Realized gains and losses are included in other income.

4. DEFERRED POLICY ACQUISITION COSTS

The following reflects the policy acquisition costs deferred for amortization against future income and the related amortization charged to income: (in thousands)

	1996	1995
Balance, beginning of year	$ 339	$ 903
Acquisition costs deferred	1,333	959
Amortization charged to income	(1,063)	(1,523)
Balance, end of year	$ 609	$ 339

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Louisiana Workers' Compensation Corporation
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Workers' Compensation Corporation (the Corporation) as of and for the year ended December 31, 1996, and have issued our report thereon dated April 23, 1997.

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

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

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

This report is intended for the information of the board of directors and management, and the Louisiana Legislative Auditor's Office. However, this report is a matter of public record, and its distribution is not limited.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

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Estimated amounts pertaining to reinsurance that were deducted from losses incurred and loss adjustment expenses were approximately $21,489,000 and $(7,830,000) at December 31, 1996 and 1995. Changes in ultimate reserve assumptions because of current experience resulted in losses incurred and loss adjustment expense reserves decreases which in turn reduced the estimated amounts of reinsurance recoverables in 1995.

8. COMMITMENTS

At December 31, 1996, the Corporation was committed under the terms of non-cancelable office and equipment leases as follows (in thousands):

Year	Office Leases	Equipment Leases
1997	$95	$989
1998	83	732
1999	74	140
2000	31	27
2001 and later	0	4

The Corporation incurred rental expense of approximately $1,178,000 and $310,000 during the years ending December 31, 1996 and 1995 for lease payments.

9. RETIREMENT PLAN

The Corporation sponsors a defined contribution pension plan covering substantially all of its employees. Contributions to the pension plan are at the Board of Directors' discretion. Contributions and costs were 4% of each covered employee's salary for 1996 and 1995, and totaled approximately $418,000 and $338,000 for 1996 and 1995.

The Corporation also sponsors a savings plan covering all eligible employees. Participating employees may contribute up to 15% of their base salary with the Corporation matching up to 5%. Contributions expense of the Corporation was approximately $236,000 and $194,000 for 1996 and 1995.

10. DEFERRED START-UP COSTS

The following reflects the start-up costs deferred for amortization against future income and the related charge to income for the years 1996 and 1995: (in thousands)

	1996	1995
Balance, beginning of year	$831	$1,304
Amortization charged to income	475	473
Balance, end of year	$356	$ 831

11. RELATED PARTY TRANSACTIONS

In the normal course of business, the Corporation conducts transactions with a board member. This board member is affiliated with insurance agencies which receive commissions for policies placed with the Corporation. The commissions paid are based on the standard rates used for all agents and were not significant to the Corporation in 1996 or 1995.

Supplemental Statement

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors
Louisiana Workers' Compensation Corporation

Our report on our audit of the basic financial statements of Louisiana Workers' Compensation Corporation for 1996 appears on page 2. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Statement of Board Member Compensation is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been 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
April 23, 1997

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

LOUISIANA WORKERS' COMPENSATION CORPORATION
Supplemental Statement of Board Member Compensation
Year Ended December 31, 1996
(in thousands)

Louisiana Workers' Compensation Corporation (the Corporation) board members are paid no salaries. The Corporation offers board members other than legislative members and the Insurance Commissioner's representative a per diem for actual attendance at board and committee meetings. Certain board members choose to serve without pay. The following amounts were paid to the Corporation's Board of Directors during the year ended December 31, 1996.

Boysie Bollinger	$2
Joe Burns	6
Clark Cosse' III	7
Carl Crowe	6
Barbara Fagan	4
Seth Keener	6
John Kennedy	4
Ed Taylor	6
Aubrey Temple	5

Other Reports Required by *Governmental Auditing Standards*

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Louisiana Workers' Compensation Corporation
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Workers' Compensation Corporation (the Corporation) for the year ended December 31, 1996, and have issued our report thereon dated April 23, 1997.

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

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

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In planning and performing our audit of the financial statements of the Corporation for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the board of directors, management, and the Louisiana Legislative Auditor's Office. However, this report is a matter of public record, and its distribution is not limited.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 23, 1997

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