

OFFICIAL
BILL COPY

DO NOT SIGN OVER

When necessary
copies from this
copy not signed
RECALLABLE

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

**FINANCIAL STATEMENTS
DECEMBER 31, 1996 and 1995**

17
18
19
20
21
22
23
24
25
26
27
28
29
30

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the auditor, or reviewed, orally and after appropriate public officials. This report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, when appropriate, at the office of the parish clerk of court.

Release Date — ~~200~~ 3-9-1997



**LOUISIANA HIGH RISK HEALTH POOL, INC.
vs. LOUISIANA HEALTH INSURANCE ASSOCIATION**

FINANCIAL STATEMENTS

DECEMBER 31, 1996 and 1995



TABLE OF CONTENTS

	Page
Independent Auditors' Report	i
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 13
Independent Auditors' Report on Internal Control of Sections Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	14 - 15
Independent Auditors' Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	16



Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

808 LIMITED PLAZA DE WIL, SUITE 1000 • BAYTON, MISSISSIPPI 39313 • TELEPHONE (601) 837-8888 • FAX (601) 837-4111

INDEPENDENT AUDITORS' REPORT

Board of Directors
Louisiana High Risk Health Pool, Inc.
c/o 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) c/o Louisiana Health Insurance Association as of December 31, 1996 and 1995, 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. These 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 opinions.

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., c/o Louisiana Health Insurance Association, as of December 31, 1996 and 1995, and the changes in net assets and cash flows for the years then ended, in conformity with generally accepted accounting principles.

As described in Note 7 to the financial statements, the Association adopted Statement of Financial Accounting Standards No. 128, Accounting for Certain Investments Held by Not-for-Profit Organizations, during the year ended December 31, 1996.

In accordance with Government Auditing Standards, we have also issued a report dated March 7, 1997 on our consideration of the Association's internal control structure and a report dated March 7, 1997 on its compliance with laws and regulations.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 7, 1997

LOUISIANA HIGH RISK HEALTH POOL, INC.
and LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1996 and 1995

ASSETS

	<u>1996</u>	<u>1995</u>
CURRENT ASSETS		
Cash	\$ 42,774	\$ 55,478
Investments	4,598,292	1,581,248
Accrued interest	<u>188,214</u>	<u>194,781</u>
	4,789,280	1,831,507
INVESTMENTS	<u>8,916,811</u>	<u>11,023,247</u>
DEPRECIABLE ASSETS		
Property and equipment (net of accumulated depreciation of \$48,425 and \$68,683, respectively)	<u>22,183</u>	<u>18,847</u>
Total assets	<u>\$ 13,708,274</u>	<u>\$ 12,873,601</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Payroll taxes payable	\$ 966	\$ 884
Claims payable	<u>873,980</u>	<u>804,080</u>
	873,980	804,964
NET ASSETS		
Unrestricted		
Designated by the Board for the capital and surplus requirements of Louisiana insurance laws and regulations	3,080,080	3,080,080
Undesignated	<u>9,628,220</u>	<u>8,812,237</u>
Total unrestricted net assets	<u>12,839,850</u>	<u>11,892,317</u>
Total liabilities and net assets	<u>\$ 13,708,274</u>	<u>\$ 12,873,601</u>

The accompanying notes are an integral part of these statements.



LOUISIANA HIGH RISK HEALTH PLAN, INC.
87 1/2 LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

Page 1 of 2

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1994 and 1993

	<u>1994</u>	<u>1993</u>
REVENUES		
State appropriations	\$ 2,000,000	\$ 2,000,000
Mandated service charges	389,880	512,621
Premiums	1,686,473	1,265,789
Investment revenues	589,312	1,549,713
Net loss on sales of investments	<u>13,000</u>	<u>42,389</u>
	<u>4,678,665</u>	<u>5,369,512</u>
CLAIMS EXPENSES		
Claims administration	63,814	91,181
Claims payments	3,418,829	2,180,773
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	<u>14,800</u>	<u>329,000</u>
	<u>3,497,443</u>	<u>2,480,954</u>
OPERATING EXPENSES		
Advertising	462	115
Bank and trustee fees	24,288	21,362
Computer services	82,848	79,588
Consultant - advisory	15,821	28,996
Copy usage and supplies	6,664	4,912
Depreciation	18,872	18,832
Insurance	13,086	13,368
Maintenance	2,582	3,475
Miscellaneous expense	710	390
Office supplies	7,815	5,815
Payroll taxes	11,468	18,599
Postage	6,491	4,875
Professional education	655	809
Professional fees	17,268	44,178
Rent	39,294	18,100
Salaries and wages	143,600	125,391
Subscriptions and dues	806	1,530
Telephone and utilities	8,894	5,830
Travel expense	<u>5,212</u>	<u>5,820</u>
	<u>374,022</u>	<u>389,168</u>

The accompanying notes are an integral part of these statements.



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

Page 2 of 2

**STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1996 and 1995**

	<u>1996</u>	<u>1995</u>
CHANGE IN NET ASSETS	\$ 897,983	\$ 2,418,627
Net assets - beginning of year (as previously reported)	11,970,297	10,116,532
Adjustment for the cumulative effect on prior years of retroactively applying the new method of accounting for investments	<u> -</u>	<u>\$ 260,337</u>
Net assets - end of year (as restated) , including the \$3,000,000 designated by the Board for the capital and surplus requirements of Louisiana insurance laws and regulations	<u>\$ 12,868,280</u>	<u>\$ 11,973,199</u>
 Additional disclosures of claims activity:		
Claims payable - beginning of year	\$ 904,000	\$ 570,000
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	<u> 34,000</u>	<u> 320,000</u>
Claims payable - end of year	<u>\$ 938,000</u>	<u>\$ 900,000</u>

The accompanying notes are an integral part of these statements.



**LOUISIANA HIGH RISK HEALTH POOL, INC.
 AND LOUISIANA HEALTH INSURANCE ASSOCIATION
 BATON ROUGE, LOUISIANA**

Page 1 of 2

**STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 1998 and 1997**

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Service charges received	\$ 908,890	\$ 523,617
State appropriations received	2,000,000	2,000,000
Premiums received	3,666,473	1,363,709
Investment interest received	813,782	626,417
Claims paid to participants	(3,413,023)	(2,308,713)
Cash paid for employee and supplies	(425,183)	(428,164)
Net cash provided by operating activities	1,469,939	1,868,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(33,120)	(5,000)
Proceeds from sales and maturities of investments	1,793,963	3,911,485
Purchases of investments	(3,263,264)	(5,782,573)
Net cash used by investment activities	(1,499,318)	(1,875,174)
Net increase (decrease) in cash and cash equivalents	(29,379)	7,693
Cash and cash equivalents - beginning of year	53,478	45,835
Cash and cash equivalents - end of year	24,099	53,478

The accompanying notes are an integral part of these statements.



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

Page 2 of 2

STATEMENTS OF CASH FLOWS
YEARS ENDING DECEMBER 31, 1996 and 1995

	1996	1995
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 857,983	\$ 2,418,877
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18,877	18,850
Net unrealized (gains) losses on investments	275,297	(821,267)
Net loss on sales of investments	13,808	49,399
Net amortization of premiums and discounts	(13,874)	(12,248)
Decrease (increase) in account interest receivable	38,247	(76,398)
Increase (decrease) in claims payable	(34,800)	329,000
Increase in payroll taxes payable	82	279
	<u>\$ 1,148,815</u>	<u>\$ 1,884,817</u>
Net cash provided by operating activities	\$ 1,148,815	\$ 1,884,817

The accompanying notes are an integral part of these statements.



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

NOTES TO 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 formed under Louisiana Legislative Act No. 101 of 1990 to provide a mechanism which will insure the availability of health and accident insurance coverage to those citizens of Louisiana who, because of health conditions, cannot obtain health insurance coverage. The Association's general objectives 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 the Association, the assets shall satisfy all of the Association's outstanding liabilities and obligations. Any excess of assets over liabilities shall be transferred to the State of Louisiana.

Policies will be issued only to the extent that the losses will be covered by actuarially determined reserves.

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.

Investments

Under Louisiana Revised Statute 39:1271, the Association may invest 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.

Investments are stated at fair value as determined by quoted market prices. Interest and investment revenues are recognized when earned.



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

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies (Continued)

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 are computed using the straight-line method over 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.

Member service charges

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 fee 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 annually, 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.

Claims expense and claims payable

Claims expense consists of both the actual claims paid during the current year and any adjustments to the accounting 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 current year earnings.

LOUISIANA HIGH RISK HEALTH POOL, INC.
ORIGIN LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Retrospective Changes for New Pronouncements

The Association adopted Statement of Financial Accounting Standards (SFAS) No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, during the year ended December 31, 1996. In accordance with SFAS No. 124, investments are recorded at their fair market values, and gains and losses are included in the statement of activities. The effects of the change are described in Note 7.

Statement 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 1995 financial statements have been reclassified to conform with the current year presentation.

LOUISIANA HIGH RISK HEALTH POOL, INC.
4834 LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Investments

The Association's investments are unsecured 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, 1996 and 1995 are as follows:

	December 31, 1996			
	Carrying Value	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 562,852	\$ -	\$ -	\$ 562,852
United States Treasury Bills	1,960,186	2,904	1,485	1,962,245
United States Treasury Notes	7,443,188	64,254	97,582	7,468,760
Mortgage Backed Securities guaranteed by U. S. Government Agencies	3,496,224	12,715	42,493	3,466,246
	<u>\$ 13,462,450</u>	<u>\$ 79,879</u>	<u>\$ 141,560</u>	<u>\$ 13,400,769</u>

The amortized costs and estimated fair values of investments held in trust as of December 31, 1996 and 1995 are as follows (continued):

	December 31, 1995			
	Carrying Value	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 614,291	\$ -	\$ -	\$ 614,291
United States Treasury Notes	8,261,091	291,329	4,282	8,588,078
Mortgage Backed Securities guaranteed by U. S. Government Agencies	3,481,863	40,646	16,642	3,486,267
	<u>\$ 12,357,245</u>	<u>\$ 332,575</u>	<u>\$ 21,324</u>	<u>\$ 12,668,496</u>

LOUISIANA HIGH RISK HEALTH POOL, INC.
dba LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2. Investments (continued)

The following schedule summarizes the investment revenues and their classification in the statement of activities for the years ended December 31, 1996 and 1995:

	1996	1995
Interest revenues, including the amortization of premiums and discounts	\$ 784,609	\$ 715,166
Net unrealized appreciation (depreciation) on investments	(272,297)	332,347
	\$ 512,312	\$ 1,047,513

3. Lease Commitments

During the year ended December 31, 1994, the Association entered into a lease for its office facilities through August 1997. In general, the terms of the lease provided for monthly payments ranging from \$1,243 to \$1,572 through its termination on August 4, 1997.

During the year ended December 31, 1996, the Association cancelled, without penalty, its existing lease for its office facilities and entered into a separate lease with the same lessor for new office facilities. The new lease requires the Association to make monthly payments ranging from \$1,833 to \$2,883 through its termination in August 2001.

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

Year ending December 31,		
1997	\$	22,080
1998		22,533
1999		23,535
2000		24,533
2001		25,080
		\$ 108,681

Total rent expense on operating leases was \$18,815 and \$15,249 during the years ended December 31, 1996 and 1995, respectively.



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

NOTES TO FINANCIAL STATEMENTS

4. Claims Payable

The claims payable liabilities of \$870,000 and \$904,000 reported at December 31, 1996 and 1995, 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.

A reconciliation of the unpaid claims liabilities is shown below:

	<u>1996</u>	<u>1995</u>
Unpaid claims and claims adjustment expenses at beginning of year	\$ 504,000	\$ 515,000
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	3,653,819	2,580,754
Decreases in the provision for insured events of prior fiscal years	(257,794)	(180,981)
Total incurred claims and claims adjustment expenses	<u>3,396,025</u>	<u>2,400,773</u>
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	2,963,819	1,676,754
Claims and claims adjustment expenses attributable to insured events of the prior fiscal years	<u>648,206</u>	<u>424,019</u>
Total Payments	<u>3,612,025</u>	<u>2,100,773</u>
Unpaid claims and claims adjustment expenses at end of year	<u>\$ 870,000</u>	<u>\$ 904,000</u>

5. Income Taxes

The Association's initial applications for recognition of exemption from federal income taxes under sections 501(c)(30) and 500(c)(30) of the Internal Revenue Code were denied by the Internal Revenue Service. Following reconsideration of the adverse ruling on the sections 501(c)(30) application, the Internal Revenue Service granted the Association exempt status under section 501(a) of the Internal Revenue Code. Based on the adverse rulings of the initial applications, the Association had filed amended corporate income tax returns for all of the years since inception. Additionally, section 115 of the Internal Revenue Code considers all of the Association's revenues to be exempt from taxation, and there was no tax liability for any of these years.

Subsequent to December 31, 1996, the Internal Revenue Service determined that the Association is exempt from federal income taxes under Section 501(c)(28) of the Internal Revenue Code. The effective date of this ruling is January 1, 1997.



LOUISIANA HIGH RISK HEALTH POOL, INC.
aka LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTE TO FINANCIAL STATEMENTS

6. Capital and Surplus Requirements

The Louisiana insurance regulations require the Association to maintain a minimum capital and surplus level of \$3,800,000. The Board formally designated a portion of its unretained net assets for this purpose, and this designation is reflected on the financial statements accordingly.

7. Change in Accounting Principles

The Association adopted SFAS No. 124, *Accounting for Certain Investment Assets Held for Profit Organizations*, during the year ended December 31, 1996. In accordance with SFAS No. 124, investments with readily determinable fair values and all investments in debt securities are reported at their fair market values, and all gains and losses are included in the statement of activities. As permitted by SFAS No. 124, the Association has retroactively applied the provisions of this new statement by restating net assets as of January 1, 1995.

This statement resulted in a decrease in net assets of \$568,317 at January 1, 1996 and an increase in the change in net assets of \$432,387 for the year ended December 31, 1995.



Pastelthwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

800 UNITED PLAZA SUITE 1000, SUITE 1000 • BAYVIEW BOULEVARD, LUDHIANA, MISSOURI • TELEPHONE (304) 870-6000 • FAX (304) 870-1517

Independent Auditor's Report on Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Louisiana High Risk Health Pool, Inc.
c/o Louisiana Health Insurance Association
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana High Risk Health Pool, Inc. (a not-for-profit organization) c/o Louisiana Health Insurance Association (the Association) as of and for the year ended December 31, 1996, and have issued our report thereon dated March 7, 1997.

We have 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 misstatements.

The management of the Association 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 authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Association as of and 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 of the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters relating to our attention relating to significant deficiencies in the design or operation of the internal control structure 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.

- | | |
|-----------------------|---|
| Finding | - The segregation of duties is inadequate to provide effective internal control. This condition is due to the limited size of the accounting staff and available resources. This condition existed in previous years and was mentioned in the Independent Auditors' Report on Internal Control Structure based on an audit of financial statements performed in Accordance With Government Auditing Standards dated March 3, 1996. The condition remains unchanged as of December 31, 1996. |
| Recommendation | - No action is recommended. |
| Response | - Management concurs in the finding. |

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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the lack of segregation of duties described above is a material weakness.

This report is intended for the information of the finance committee and management of the Louisiana Health Insurance Association, the Commissioner of Insurance, State of Louisiana, and the Legislative Auditor, State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Paul A. Swartz : Mattewick

Baton Rouge, Louisiana
March 7, 1997



Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

808 LIMITED PEARL DRIVE, SUITE 1001 • BATON ROUGE, LOUISIANA 70809 • TELEPHONE (504) 835-8000 • FAX (504) 835-8111

Independent Auditors' Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors

Louisiana High Risk Health Pool, Inc.
47½ Louisiana Health Insurance Association
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana High Risk Health Pool, Inc. (a non-for-profit organization) 47½ Louisiana Health Insurance Association (the Association) as of and for the year ended December 31, 1995, and have issued our report thereon dated March 7, 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. These 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, regulations, and contracts applicable to the Association is the responsibility of the Association's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Association's compliance with certain provisions of laws and regulations. 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 under Governmental Auditing Standards.

This report is intended for the information of the finance committee and management of the Louisiana Health Insurance Association, the Commissioner of Insurance, State of Louisiana, and the Legislative Auditor, State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 7, 1997