LOUISIANA INSURANCE GUARANTY ASSOCIATION

FINANCIAL STATEMENTS
(Cash Basis)

YEARS ENDED DECEMBER 31, 1996 AND 1995

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court

Release Date AUG 13 1997

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FINANCIAL STATEMENTS
(Cash Basis)

YEARS ENDED DECEMBER 31, 1996 AND 1995

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Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

Members and Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the accompanying statements of assets, liabilities, and changes in members' equity (deficit) arising from cash transactions of Louisiana Insurance Guaranty Association as of December 31, 1996 and 1995, and the related statements of receipts and disbursements 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 *Governmental 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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and changes in members' equity (deficit) arising from cash transactions of Louisiana Insurance Guaranty Association as of December 31, 1996 and 1995, and its receipts collected and disbursements paid during the years then ended, on the basis of accounting described in Note 1.

Since these financial statements are prepared on a cash basis, no liability is recorded for future payments for return of unearned premiums or claims. However, as discussed in Note 7 to the financial statements, the Association regularly estimates liabilities for such losses. These estimated losses have not been audited by us and accordingly we express no opinion or any other form of assurance on them.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 13, 1997

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ASSETS, LIABILITIES, AND CHANGES IN MEMBERS' EQUITY (DEFICIT)
ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 1996 AND 1995

ASSETS

	1996	1995
Cash	$ 72,095	$ 1,559,630
Investments	114,490,379	72,312,039
	$ 114,562,474	$ 73,871,669

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

Outstanding checks in excess of bank balances	$ 1,786,883	$ 4,658,148
Bonds payable	106,862,376	121,722,376
	108,649,259	126,380,524
Members' equity (deficit) Balance at beginning of year	(52,508,855)	(78,366,167)
Excess of receipts over disbursements for the year	58,422,070	25,857,312
Balance at end of year	5,913,215	(52,508,855)
	$ 114,562,474	$ 73,871,669

The accompanying notes are an integral part of these statements.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF RECEIPTS AND DISBURSEMENTS
YEARS ENDED DECEMBER 31, 1996 AND 1995

	1996	1995
RECEIPTS		
Assessments received from members	$ 72,117,829	$ 65,250,015
Early access distributions by liquidators	16,850,380	27,978,556
Interest income	5,390,116	4,232,879
Other receipts	77,336	52,042
	94,435,661	97,513,492
DISBURSEMENTS		
Loss claims	20,517,403	48,520,727
Premiums returned	521,460	405,067
Legal fees and claims handling expenses reimbursed to attorneys	6,329,116	9,897,072
Management and administrative fees	2,233,005	5,070,407
Claims handling fees to outside adjusters	428,340	933,469
Claims handling expenses reimbursed to servicing agencies	161,223	213,242
Claims handling fees and expenses - in house	109,159	-
Interest expense	5,056,305	5,567,423
Administrative staff expense	378,056	385,076
Computer equipment and software	152,471	267,481
Trust and bank fees	14,997	20,612
Miscellaneous	112,056	375,604
	36,013,591	71,656,180
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 58,422,070	$ 25,857,312

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization

The Louisiana Insurance Guaranty Association (the Association) is an organization created by the Louisiana Insurance Guaranty Act to pay for the claims against insolvent member insurance companies. Funds are provided for the payment of the claims by the assessment of the remaining member insurance companies. All insurance companies doing business in Louisiana except those writing life, health and accident, title, disability, mortgage guaranty, and ocean marine insurance as well as all types of reinsurance, are required to be members of the Association.

During 1996 the Association continued to consolidate its operations and expand its capabilities by establishing an in house Claims Unit. In October 1996 approximately one-third of all outstanding property and casualty claims we being handled by the Claims Unit. In January 1997 all remaining claims, except workers' compensation claims, were brought in-house. Workers' compensation claims continue to be processed by the Association's one remaining outside claims service provider. All administrative functions are performed by the Association's staff.

Accounting Method

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, revenue and related assets are recognized when received, and expenses and related liabilities are recognized when paid. Accordingly, no liabilities are recorded for future payments for unearned premiums, loss claims or related expenses. As discussed in Note 7, the Association regularly estimates liabilities for such liabilities.

Income Taxes

The Association is exempt from income taxes under Internal Revenue Code Section 501(c)(6); therefore, no provision for income taxes has been made.

2. Investments

Bond indentures require that funds be invested in interest-bearing investments which are recorded at cost. The Association enters into short-term repurchase agreements with Louisiana financial institutions whereby the Association purchases U. S. government securities with an agreement to resell the securities to the financial institution at cost. The Association also deposits funds in money market funds invested in U. S. Treasury obligations. The market value of the repurchase agreements and money market accounts approximates cost. Investments in collateral investment contracts represent U. S. Treasury securities owned by the Association and repurchase agreements entered into with Westdeutsche Landesbank Girozentrale, New York Branch (WLG) whereby WLG agrees to repurchase the U. S. Treasury securities at an amount not less than the purchase price and to yield 4.3% or 4.96%, depending on the contract. Investments in collateral investment contracts are agreements between specific entities with guaranteed interest rates over the life of the respective bond issues and have no secondary market. Therefore, the market value is considered the same as cost.

Substantially all investments are restricted for debt service on the bonds and are as follows:

	1996	1995
U. S. Government securities under agreement to sell	$ 3,159,000	$ 2,785,000
Money market accounts invested in		
U. S. Treasury obligations	71,150,057	36,793,105
U. S. Treasury obligations	-	19,123,696
Collateral Investment Contract with Westdeutsche		
Landesbank Girozentrale, New York Branch	40,181,322	13,610,238
	$114,490,379	$ 72,312,039

At December 31, 1996 and 1995, $13,670,500 and $13,610,238 of the collateral investment contract investments were held in a restricted trust account as security for the bonds and were unavailable for operations.

3. Members' Equity (Deficit)

The balance of members' equity represents funds collected from member insurance companies in excess of funds disbursed to pay claims and expenses of the Association. Excess funds are to be used to pay future claims and expenses of insolvent member insurance companies. The balance of members' equity (deficit) represents funds disbursed to pay covered claims and expenses of insolvent member insurance companies in excess of funds collected from member insurance companies. These additional funds have been provided from bond proceeds, as discussed in Note 5, and are to be used for the payment of claims, return of unearned premiums and reimbursement of expenses incurred for the following insolvent insurance companies (See Note 7):

ANA	Dixie Lloyds	National Allied
Alliance Casualty	Dominion	New England International
Allied Fidelity	Early American	North American Indemnity
American Druggist	Eastern Indemnity	Ohio General
American Fidelity Fire	Employers National	Old Hickory Casualty
American Lloyds	Employers' Casualty Company	Pacific Marine of Wash.
American Mutual Liability	Excalibur	Pelican State Mutual
American Mutual Boston	Fidelity Fire & Casualty	Premier Alliance
American Surety & Fidelity	First Southern	Presidential Fire & Casualty
American Universal	General	Protective Casualty
Andrew Jackson	Gulf Coast Casualty	Reserve
Anglo American	Horizon	Rockwood
Arist National	Ideal Mutual	South Central
Aspen Indemnity	Imperial Lloyds	Southern American
Cadillac	Integrity	Sovereign Fire & Casualty
CAR Insurance Company	Laramie	Sunbelt Southern Lloyds
Carriers	Liberty Lloyds	Transit Casualty
Cascade	Lloyds Assurance of Louisiana	U.S. Indemnity
Champion	Lloyds of Louisiana	Union Indemnity
Colonial Lloyds	Lutherans Benevolent	United Community
COMCO	Magnolia Fire and Casualty	Universal Security
Commodore	Mid American Casualty	Western Employers
Commonwealth General	Mission	
Constellation Reins, N.Y.	Mission National	

Pursuant to a plan of rehabilitation of Bonneville Insurance Company, the Association received $135,500 during both 1996 and 1995. The Association paid claims and related expenses of $35,058 and $134,127 during 1996 and 1995, respectively, from these funds. At December 31, 1996 and 1995, $392,597 and $356,704, respectively, of the Association's investments were held in trust and restricted to the payment of claims pursuant to Bonneville Insurance Company. The Association estimates that substantially all of these funds will be expended for claims and any remaining funds will be returned pursuant to this plan of rehabilitation.

4. Assessments

Louisiana Revised Statute 22:1382 gives the Association the authority to assess member insurance companies the amount necessary to pay the obligations and expenses of the Association. Beginning January 1, 1990, and ending December 31, 2002, the assessment to member insurance companies cannot exceed an amount equal to two percent (2%) of net direct written premiums during the preceding calendar year. Beginning January 1, 2003, and thereafter, the assessment to member insurance companies is not to exceed an amount equal to one percent (1%) of net direct written premiums during the preceding calendar year, unless changed by the Louisiana Legislature.

The Association has determined that five member companies qualify for earned credits of up to 80% of their annual assessments. Member companies can also qualify for assessment reductions by investing in qualifying Louisiana securities.

Pursuant to agreements entered into by the Association related to the issuance of bonds, see Note 5, the Association is obligated to assess member insurance companies the maximum permitted percentage of net direct written premiums each calendar year until these bonds and related obligations are paid in full.

5. Bonds Payable

During the year ended December 31, 1990, the Association, in conjunction with the Louisiana Public Facilities Authority (LPFA), entered into certain trust, indenture and other agreements whereby the Association issued LPFA Special Insurance Assessment Revenue Bonds Series 1990 not to exceed $50 million. These bonds were refunded on October 25, 1993 and all security and related agreements were terminated.

On October 25, 1993, the Association, again in conjunction with the Louisiana Public Facilities Authority, entered into certain trust, indentures, and other agreements whereby the Association issued LPFA Special Insurance Assessment Revenue Bonds Series 1993 dated October 1, 1993 in the amount of $136,705,000. The net bond proceeds (after payment of $1,384,000 in underwriting and bond issuance costs) were used to refund the Series 1990 bonds and will be used to pay covered claims to claimants or policyholders arising through the insolvency of member insurance companies and to establish various reserve funds as required by the related bond trust indentures.

5. Bonds Payable (continued)

The Series 1993 bonds and accrued interest thereon are secured by substantially all of the assets of the Association, assessments received and receivable, and an insurance policy issued by Financial Security Assurance, Inc. The bonds do not constitute or create, in any way, an obligation of the State of Louisiana or any political subdivision thereof.

The Series 1993 bonds outstanding bear interest at rates ranging from 3.90% to 4.60% (effective average interest rate of 4.539% for term of bonds) which is payable semi-annually on each April 1 and October 1. At December 31, 1996 and 1995, there was approximately $1,159,300 and $1,298,600, respectively, of accrued interest owed on the bonds.

Certain of the Series 1993 bonds were sold with an original issue discount of $602,624 which is shown as a reduction of the outstanding principal for the bonds.

The bonds are not subject to optional redemption prior to the stated maturity. The bonds are subject to mandatory sinking fund redemptions without premium plus accrued interest at December 31, 1996 as follows:

Year ending December 31,	
1997	$ 15,377,198
1998	16,257,495
1999	17,209,867
2000	18,231,244
2001	19,316,274
Thereafter	20,470,298
	$ 106,862,376

6. Early Access Distributions by Liquidators

The Association files claims against the estates of insolvent insurers in an effort to recover a portion of the policyholder claims paid and related expenses from the assets of the insolvent insurer. During the years ended December 31, 1996 and 1995, the Association received $16,850,380 and $27,978,556, respectively, of such distributions which are reflected as receipts in these financial statements. No estimate is available of future potential distributions from liquidations due to the uncertainty and difficulty in accurately estimating these amounts.

7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited)

The funds of the Association are used to pay insurance claims of insolvent member insurance companies (See Note 3). These claims are pursuant to the Louisiana Insurance Guaranty Law, LA. R.S. 22:1375-1394. As of December 31, 1996, the Association had 4,146 open claims files outstanding, a substantial portion of which are involved in litigation. Additionally, other member insurance companies may be declared insolvent subsequent to the date of these financial statements.

Due to the uncertainty involved in accepting and administering insolvent companies, as well as the difficulty in determining reliable estimates, the Association maintains its financial records on a cash basis. However, the Association regularly attempts to estimates the amount of claims and claims administration expenses related to insolvent member insurance companies as a function of managing and administering those losses.

Provided on the next page is an unaudited condensed balance sheet of the Association at December 31, 1996, on a modified accrual basis which recognizes management's estimate of claims and related liabilities, assessments received in advance, and accruals of interest. This information is intended to reflect only certain estimated assets and liabilities of the Association and is not intended to represent the financial position of the Association in accordance with generally accepted accounting principles. These estimates are expected to vary, possibly significantly, as additional information becomes available.

The condensed unaudited balance sheet does not provide for accruals of amounts due from liquidators of insolvent insurance companies, the deferral of financing costs related to the bond issuances, and accruals of operating costs owed at year end not included in the reserves for claims administration expenses.

As described in Note 4, the Association has been granted the authority to assess member insurers at a rate of two percent (2%) which is expected to produce approximately $72 million annually. Additionally, LA R.S. 22:1382 provides that if the maximum assessment and other assets available to the Association are insufficient to make all necessary payments, the Association may borrow additional funds or payments can be reduced on a prorated basis and unpaid balances are to be paid as funds become available.

NOTES TO FINANCIAL STATEMENTS

7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited) (continued)

ASSETS

	December 31, 1996 Unaudited
Cash	$ 72,095
Investments	114,490,379
Accrued interest receivable	768,100
Total assets	$ 115,330,574

LIABILITIES AND MEMBERS' EQUITY (DEFICIT)

Outstanding checks in excess of bank balances	$ 1,786,883	
Estimated claims and claims administration expenses payable	83,241,000	(1)
Accrued interest payable and other expenses	1,159,300	
Bonds payable	106,862,376	(2)
Total liabilities	193,049,559	
Members' equity (deficit)	(77,718,985)	(3)
Total liabilities and members' equity (deficit)	$ 115,330,574	

(1) Represents management's estimate of claims and claims administration expense reserves related to open claim files at December 31, 1996. Management estimates that these claims and expenses should become due and be paid over a projected five year period.

(2) The bonds are due in sinking fund installments through October 2002 (see Note 5).

(3) The Association expects to eliminate its deficit in an orderly manner over the next few years. The Association projects that the receipt of assessments from members, totaling approximately $72 million annually, and the continued receipt of proceeds from liquidators of insolvent insurance companies should be sufficient to satisfy the Association's obligations.

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

Board of Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the cash basis financial statements of Louisiana Insurance Guaranty Association (the Association) as of and for the year ended December 31, 1996, and have issued our report thereon dated March 13, 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 misstatement.

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 authorization and recorded properly to permit the preparation of financial statements in accordance with the cash basis of accounting. 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.

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 and irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

This report is intended for the information of the finance committee and management of the Louisiana Insurance Guaranty 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 13, 1997

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

Board of Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the cash basis financial statements of Louisiana Insurance Guaranty Association (the Association) as of and for the year ended December 31, 1996, and have issued our report thereon dated March 13, 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, regulations and contracts applicable to the Association is the responsibility of the organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the organization'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 the following instance of noncompliance that is required to be reported under *Governmental Auditing Standards* for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the Association's December 31, 1996 financial statements.

The Louisiana Legislative Auditor's Office requires the Association to file accrual basis financial statements in accordance with generally accepted accounting principles. For the year ended December 31, 1995, the Association prepared, and filed with the Louisiana Legislative Auditor's Office, financial statements on a cash basis of accounting, which is significantly different from generally accepted accounting principles.

We considered this noncompliance finding in forming our opinion on whether the Association's financial statements are presented fairly, in all material respects, in conformity with the cash basis of accounting, and this report does not affect our report dated March 13, 1997 on those financial statements.

This report is intended for the information of the board of directors and management of the Association, the Louisiana Commissioner of Insurance, and the Louisiana Legislative Auditor. 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 13, 1997

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES