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LOUISIANA HIGH RISK HEALTH POOL, INC.

As to LOUISIANA HEALTH INSURANCE ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 1997 and 1996

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

Release Date **APR 05 1998**



**LOUISIANA HIGH RISK HEALTH FUND, INC.
dba LOUISIANA HEALTH INSURANCE ASSOCIATION**

FINANCIAL STATEMENTS

DECEMBER 31, 1997 and 1996



TABLE OF CONTENTS

	<u>Page</u>
<i>Independent Auditor's Report</i>	1
<i>Financial Statements</i>	
<i>Statements of Financial Position</i>	2
<i>Statements of Activities</i>	3 - 4
<i>Statements of Cash Flows</i>	5 - 6
<i>Notes to the Financial Statements</i>	7 - 13
<i>Independent Auditor's Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Government Auditing Standards</i>	14 - 15



Postlethwaite & Netterville

A Professional Accounting Corporation
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Louisiana High Risk Health Pool, Inc. (a not-for-profit organization) d/b/a Louisiana Health Insurance Association as of December 31, 1997 and 1996, 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana High Risk Health Pool, Inc., d/b/a Louisiana Health Insurance Association, as of December 31, 1997 and 1996, and the results of its operations and 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 March 18, 1998 on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Postlethwaite & Netterville

Baton Rouge, Louisiana
March 18, 1998

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

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 1997 AND 1996

ASSETS

	1997	1996
Cash	\$ 39,873	\$ 47,734
Investments	14,067,038	13,466,383
Accrued interest	178,044	215,594
Property and equipment (net of accumulated depreciation of \$43,418 and \$40,427, respectively)	22,056	22,185
Total assets	\$ 14,507,011	\$ 13,751,796

LIABILITIES AND NET ASSETS

LIABILITIES

Payroll taxes payable	\$ 938	\$ 966
Claims payable	1,302,050	876,808
	1,302,988	877,774

NET ASSETS

Unrestricted		
Designated by the Board for the capital and surplus requirements of Louisiana insurance laws and regulations	3,086,808	3,086,808
Undesignated	9,698,335	9,629,628
Total unrestricted net assets	12,785,143	12,716,436
Total liabilities and net assets	\$ 14,507,011	\$ 13,780,796

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
MEMBER OF THE LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1997 AND 1996

	<u>1997</u>	<u>1996</u>
REVENUES		
State appropriations	\$ 2,000,000	\$ 2,000,000
Mandated service charges	500,450	509,880
Premiums	2,068,508	1,666,473
Investment revenues	1,099,706	509,332
Net gain (loss) on sales of investments	2,678	(13,000)
	<u>5,685,422</u>	<u>4,672,687</u>
CLAIMS EXPENSES		
Claims administration	78,083	69,004
Claims payments	4,523,281	3,410,025
Net activity in incurred but not reported claims: liability and reported but unpaid claims liability	-432,050	(34,000)
	<u>3,034,784</u>	<u>3,445,029</u>
OPERATING EXPENSES		
Advertising	6,126	462
Bank and trustee fees	19,983	24,293
Computer services	80,202	88,448
Consultant - attorney	35,577	15,801
Copy usage and supplies	6,132	6,668
Depreciation	7,502	10,872
Insurance	18,589	13,896
Maintenance	3,120	2,365
Miscellaneous expenses	481	210
Office supplies	7,886	7,813
Payroll taxes	11,688	11,468
Postage	10,077	6,499
Professional education	244	678
Professional fees	58,556	17,268
Rent	38,884	29,234
Salaries and wages	148,038	140,600
Retiree options and dues	1,895	806
Telephone and utilities	10,367	9,894
Travel expenses	3,741	3,712
	<u>462,099</u>	<u>374,825</u>

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

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

**STATEMENTS OF ACTIVITIES
 YEARS ENDED DECEMBER 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
CHANGE IN NET ASSETS	\$ 169,800	\$ 837,581
Net assets - beginning of year	<u>12,829,820</u>	<u>11,972,237</u>
Net assets - end of year, including the \$3,000,000 designated by the Board for the capital and surplus requirements of Louisiana insurance laws and regulations	<u>\$ 12,999,620</u>	<u>\$ 12,809,820</u>
 <i>Additional disclosures of closing activity:</i>		
Claims payable - beginning of year	\$ 870,000	\$ 904,000
Net activity in incurred but not reported claims liability and reported but unpaid claims liability	<u>(32,950)</u>	<u>(34,000)</u>
Claims payable - end of year	<u>\$ 1,300,050</u>	<u>\$ 870,000</u>

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

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

**STATEMENTS OF CASH FLOWS
 YEARS ENDED DECEMBER 31, 1997 AND 1996**

	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Service charges received	\$ 908,890	\$ 809,890
State appropriations received	2,000,000	2,000,000
Premiums received	2,000,500	1,666,470
Investment interest received	793,970	810,782
Claims paid for participants	(4,223,281)	(3,416,825)
Cash paid to employees and suppliers	(832,794)	(428,005)
Net cash provided by operating activities	<u>308,985</u>	<u>1,435,312</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(8,212)	(13,128)
Proceeds from sales and maturities of investments	4,783,610	3,785,965
Purchases of investments	(3,087,453)	(2,942,564)
Net cash used for investment activities	<u>(512,055)</u>	<u>(1,170,727)</u>
Net decrease in cash and cash equivalents	(203,070)	(735,415)
Cash and cash equivalents - beginning of year	<u>42,774</u>	<u>734,774</u>
Cash and cash equivalents - end of year	<u>\$ 39,704</u>	<u>\$ 42,774</u>

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



LOUISIANA HIGH RISK HEALTH POOL, INC.
OF THE LOUISIANA HEALTH INSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997 AND 1996

	1997	1996
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	\$ 368,935	\$ 857,583
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,582	18,872
Net unrealized (gains) losses on investments	(256,264)	275,297
Net (gains) loss on sales of investments	(2,678)	17,808
Net amortization of premiums and discounts	119,808	(13,874)
Decrease (increase) in accrued interest receivable	(32,497)	36,247
Increase (decrease) in claims payable	452,893	174,888
Increase (decrease) in payroll taxes payable	(82)	82
	<u>\$ 308,981</u>	<u>\$ 1,149,815</u>
Net cash provided by operating activities	\$ 308,981	\$ 1,149,815

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

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

Organization

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

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

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

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

In an attempt to be in compliance with the federal requirements described in HIPAA, the State of Louisiana passed Act No. 1154 during its 1997 regular session. This Act designated the Louisiana Health Insurance Association as the mechanism which the State of Louisiana will utilize to insure the availability of comprehensive health coverage to Louisiana citizens who lose their group health coverage and are guaranteed access to continuing coverage (federally defined eligible individuals).

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

LOUISIANA HIGH RISK HEALTHPOOL, INC.
THE LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Use of estimates

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

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

Investments

Under Louisiana Revised Statute 26:1271, the Association may invest its excess funds in United States bonds, treasury notes or certificates, any other federally insured investments, or mutual and trust fund institutions which are registered with the Securities and Exchange Commission and have underlying investments consisting solely of and limited to securities of the United States government or its agencies.

The Association adopted the provisions of SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, effective January 1, 1996. Under the provisions of SFAS No. 124, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains and losses are recorded in the statements of activities as increases or decreases in unrestricted net assets. Dividend, interest, and other investment income is recorded as an increase in unrestricted net assets unless the use is restricted by the donor.

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

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that extend the life of these assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation 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 statements of activities for that period.

LOUISIANA HIGH RISK HEALTH PLAN, INC.
2006 LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Managed service charges

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

Premiums

In accordance with state law, premium rates are actuarially determined 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 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 its actuarial consultants, of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. These estimates are based primarily on past experience. These liabilities are necessarily based on estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. Any adjustments to these estimates are reflected in that year's statement of activity.

Statements of cash flows

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

Methods of presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 113, *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.



**LOUISIANA HIGH RISK HEALTHPOOL, INC.
 4004 LOUISIANA HEALTH INSURANCE ASSOCIATION
 BATON ROUGE, LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies (continued)

Reclassification

Certain amounts in the 1996 financial statements have been reclassified to conform with the current year presentation.

2. Investments

The Association's investments are unsecured and unguaranteed. 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, 1997 and 1996 are as follows:

	December 31, 1997			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 814,928	\$ -	\$ -	\$ 814,928
United States Treasury Notes	80,804,281	243,551	739	81,047,181
Mortgage Backed Securities guaranteed by U. S. Government Agencies	3,188,282	21,286	12,899	3,196,669
	\$ 11,897,491	\$ 264,837	\$ 12,833	\$ 12,069,495
	December 31, 1996			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money Market Funds	\$ 582,852	\$ -	\$ -	\$ 582,852
United States Treasury Bills	1,961,286	2,968	1,400	1,962,744
United States Treasury Notes	2,443,388	84,154	57,582	2,469,960
Mortgage Backed Securities guaranteed by U. S. Government Agencies	3,496,724	12,715	45,469	3,464,070
	\$ 12,484,250	\$ 100,837	\$ 104,451	\$ 12,480,636

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

NOTES TO THE FINANCIAL STATEMENTS

2. Investments (continued)

The following schedule summarizes the investment resources and their classification in the statement of activities for the years ended December 31, 1997 and 1996:

	1997	1996
Interest revenues, including the amortization of premiums and discounts	\$ 817,073	\$ 781,689
Change in net unrealized appreciation (depreciation) of investments	216,281	(279,297)
	\$ 1,033,354	\$ 502,392

3. Lease Commitments

During the year ended December 31, 1996, the Association renewed, 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 \$2,083 through its termination in August 2001.

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

Year ending December 31,		
1998	\$	22,333
1999		24,333
2000		24,333
2001		35,000
	\$	111,000

Total rent expense on operating leases was \$28,780 and \$18,813 during the years ended December 31, 1997 and 1996, respectively.

**LOUISIANA HIGH RISK HEALTH POOL, INC.
4006 LOUISIANA HEALTH INSURANCE ASSOCIATION
BATON ROUGE, LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

4. Claims Payable

The claims payable liabilities of \$1,302,950 and \$870,808 reported at December 31, 1997 and 1996, respectively, are based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the liability can be reasonably estimated.

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

	1997	1996
Unpaid claims and claims adjustment expenses at beginning of year	\$ 929,000	\$ 994,808
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	5,180,240	5,098,830
Decrease in the provision for insured events of prior fiscal years	(63,942)	(252,794)
Total incurred claims and claims adjustment expenses	5,116,298	4,846,036
Payments:		
Claims and claims adjustment expenses attributable to insured events of the current fiscal year	3,797,191	2,828,813
Claims and claims adjustment expenses attributable to insured events of the prior fiscal years	804,051	645,396
Total payments	4,601,242	3,474,209
Unpaid claims and claims adjustment expenses at end of year	\$ 1,302,950	\$ 870,808

As a result of changes in estimates of incurred events in prior years, the provision for claims and claims adjustment expenses decreased by \$65,942 and \$252,794 for the years ended December 31, 1997 and 1996. These changes were due to the lower-than-anticipated development of claims.

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

NOTES TO THE FINANCIAL STATEMENTS

3. Income Taxes

During the year ended December 31, 1997, the Internal Revenue Service determined that the Association is exempt from federal income taxes under Section 501(c)(26) of the Internal Revenue Code. The effective date of this ruling is January 1, 1991.

4. Capital and Surplus Requirements

The Louisiana insurance regulations require the Association to maintain a minimum capital and surplus level of \$5,000,000. The Board formally designated a portion of its unrestricted net assets for this purpose, and this designation is reflected on the financial statements accordingly.

Finding:	The segregation of duties is inadequate to provide effective internal control.
Cause:	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 Governmental Accounting Standards dated March 5, 1993. This condition remained unchanged as of December 31, 1997.
Recommendation:	No action recommended.
Management's response:	We concur with the finding.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We do not believe that the lack of segregation of duties described above is a material weakness.

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

Richard A. Mather

Shreveport, Louisiana
March 18, 1998