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Statutory Basis Financial Statements for the Years Ended December 31, 1998 and 1997 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 statements of admitted assets, liabilities, and policyholders' surplus of Louisiana Workers' Compensation Corporation (the Corporation) as of December 31, 1998 and 1997, 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, 1998 and 1997, 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, 1998 and 1997, and the results of its operations, changes in policyholders' surplus and cash flows for the years then ended, on the basis of accounting described in Note 2a.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

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

Statutory Statements of Admitted Assets, Liabilities, and Policyholders' Surplus
December 31, 1998 and 1997
(In thousands)

ADMITTED ASSETS

	1998	1997
Cash and cash equivalents	$ 9,334	$ 2,651
Certificates of deposit	8,100	22,361
Bonds	489,522	478,492
Common stock	71,558	44,932
Receivable for securities	512	405
Premiums in course of collection	5,052	8,301
Deferred premiums receivable	29,934	31,890
Home office property	11,437	11,292
Electronic data processing equipment	279	513
Other admitted assets	5,669	5,967
TOTAL ADMITTED ASSETS	$631,397	$606,804

LIABILITIES AND POLICYHOLDERS' SURPLUS

	1998	1997
Liabilities:		
Losses and loss adjustment expense reserves	$356,840	$386,023
Unearned premium reserves	11,513	13,702
Contingent commissions	750	1,522
Policyholders' deposits	15,465	20,191
Taxes, licenses, and fees	37,138	33,688
Payable for securities	10,811	
Other expenses due and payable	13,092	14,987
TOTAL LIABILITIES	445,609	470,113
POLICYHOLDERS' SURPLUS	185,788	136,691
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	$631,397	$606,804

See notes to statutory basis financial statements.

Statutory Statements of Operations
Years Ended December 31, 1998 and 1997
(In thousands)

	1998	1997
Premiums earned	$98,026	$170,532
Underwriting expenses:		
Losses incurred	38,496	97,130
Loss adjustment expenses	33,331	25,965
Other underwriting expenses	20,044	47,297
Total underwriting expenses	91,871	170,392
Underwriting income	6,155	140
Net investment income	34,776	33,757
Net realized capital gains	3,145	2,209
Other expenses - net	(3,394)	(2,869)
Net income	$40,682	$ 33,237

See notes to statutory basis financial statements.

Statutory Statements of Changes in Policyholders' Surplus
Years Ended December 31, 1998 and 1997
(In thousands)

	Unrealized Capital Gains - Net	Special Surplus Funds	Unassigned Surplus	Total Surplus
Balance, January 1, 1997	$ 933	$40,000	$ 54,722	$ 95,655
Net income			33,237	33,237
Nonadmitted asset change			3,013	3,013
Change in unrealized capital gains - net	4,786			4,786
Release of surplus restriction		(40,000)	40,000	
Balance, December 31, 1997	5,719	0	130,972	136,691
Net income			40,682	40,682
Nonadmitted asset change			1,226	1,226
Change in unrealized capital gains – net	7,189			7,189
Balance, December 31, 1998	$12,908	$ 0	$172,880	$185,788

See notes to statutory basis financial statements.

Statutory Statements of Cash Flows
Years Ended December 31, 1998 and 1997
(In thousands)

	1998	1997
Cash flows from operating activities:		
Net income	$ 40,682	$ 33,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,525	2,190
Net gain on sales of investments	(3,145)	(2,209)
Net amortization of bond premium	1,377	886
Decrease (increase) in premiums in course of collection	3,249	(3,323)
Decrease (increase) in deferred premiums receivable	1,956	(1,288)
Decrease (increase) in other admitted assets	193	(667)
Increase (decrease) in losses and loss adjustment expense reserves	(29,183)	26,295
Increase (decrease) in contingent commissions	(772)	1,218
Increase (decrease) in unearned premium reserves	(2,189)	10,928
Increase (decrease) in other expenses due and payable	12,366	(1,728)
Net cash provided by operating activities	26,059	65,539
Cash flows from investing activities:		
Investments:		
Purchase of investments	(256,534)	(206,428)
Proceeds from sales and paydowns	227,833	150,523
Purchase of home office property	(439)	(526)
Purchases (proceeds from maturity) of certificates of deposit	14,261	(1,261)
Proceeds from sales of equipment	229	1,794
Net cash used in investing activities	(14,650)	(55,898)
Cash flows from financing activities:		
Decrease in policyholders' deposits	(4,726)	(11,466)
Net cash used in financing activities	(4,726)	(11,466)
Net increase (decrease) in cash and cash equivalents	6,683	(1,825)
Beginning cash and cash equivalents	2,651	4,476
Ending cash and cash equivalents	$ 9,334	$ 2,651

See notes to statutory basis financial statements.

1. ORGANIZATION

Louisiana Workers' Compensation Corporation (the Corporation) is a private, nonprofit corporation created to operate as a domestic mutual insurance company by Act 814 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."* This guarantee has not expired at December 31, 1998. 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. The application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, revenues, and expenses. Actual results may differ from those estimates.

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 $11,354,000 and $6,917,000 less than GAAP carrying values as of December 31, 1998 and 1997.

Certain assets are designated as nonadmitted (principally furniture, equipment, outstanding premium receivables over 90 days old, automobiles, software and prepaid items) and are excluded from admitted assets through a direct charge to surplus. As a result, policyholders' surplus and admitted assets on a SAP basis are $15,050,000 and $16,276,000 less than on a GAAP basis as of December 31, 1998 and 1997.

Assets and liabilities relating to reinsurance contracts are stated net under SAP. As a result, admitted assets and losses and loss adjustment expense reserves are $130,651,000 and $54,668,000 less for SAP as of December 31, 1998 and 1997 and earned but unbilled premiums and other expenses due and payable are $7,488,000 and $1,880,000 less for SAP as of December 31, 1998 and 1997.

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 $111,000 less than and $70,000 greater than under GAAP for the years ended December 31, 1998 and 1997. The corresponding deferred policy acquisition costs carried as an asset under GAAP of $568,000 and $679,000 as of December 31, 1998 and 1997 are not reflected as an asset under SAP.

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, 1998 or 1997. 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 or from amortized cost if a security's estimated fair value was not listed.

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 expenses represent the estimated ultimate net cost of all reported and unreported losses incurred. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Management also relied on certain critical assumptions based on external industry data sources. 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. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current 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 was approximately $486,000 and $1,232,000 during 1998 and 1997 and is included in general and administrative expenses. Interest paid on policyholders' deposits was approximately $775,000 and $1,352,000 during 1997 and 1996.

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 deferred premiums receivable. Premiums in course of collection and deferred premiums receivable are reported net of applicable accrued reinsurance of $2,725,000 and $4,763,000 at December 31, 1998 and $388,000 and $1,492,000 at 1997.

i. Reinsurance
In the normal course of business, the Corporation reduces its exposure for any one loss by reinsuring certain levels of risk with other insurance enterprises or reinsurers. The Corporation remains liable to the extent reinsuring companies are unable to meet their treaty obligations. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. The effects of subsequent changes in estimated recoverables are accounted for with a corresponding charge or credit to income.

j. Income Taxes
The Corporation was created by the State of Louisiana to provide a residual market for state mandated workers' compensation insurance. During 1997, the United States Congress codified existing standards clarifying the tax-exempt status of the Corporation and other similar corporations. Internal Revenue Code Section 501(c)27 (IRC 501(c)27) establishes certain conditions and criteria that must be met and maintained on a continuing basis to qualify for tax-exempt status. Although formal notif-ication has not yet been received from the Internal Revenue Service, the Corporation maintains that all such conditions and criteria have been met and that the Corporation is a tax-exempt entity under IRC 501(c)27. Therefore, no provision has been made in these financial statements for income taxes.

k. Reclassifications
Certain amounts reported in the 1997 financial statements have been reclassified to conform with the 1998 presentation.

3. INVESTMENTS

At December 31, 1998, the amortized cost and estimated fair value of the portfolio as determined by the Securities Valuation Office of the NAIC are: (in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds - Issuer Obligations	$229,168	$3,312	$ 0	$232,480
Government Bonds - Backed by Loans	51,090			51,090
U. S. Agency Bonds - Backed by Loans	165,604			165,604
Collateralized Mortgage Obligations	43,660			43,660
Total Bonds	$489,522	$3,312	$ 0	$492,834
Common Stock	$58,650	$13,841	$933	$71,558

At December 31, 1997, 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 - Issuer Obligations	$217,566	$766	$543	$217,789
Government Bonds - Backed by Loans	61,465			61,465
U. S. Agency Bonds - Backed by Loans	161,090			161,090
Collateralized Mortgage Obligations	38,371			38,371
Total Bonds	$478,492	$766	$543	$478,715
Common Stock	$39,213	$6,517	$798	$44,932

The scheduled maturity at December 31, 1998, is: (in thousands)

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 10,009	$ 10,080
Due after one year through five years	168,589	170,953
Due after five years through ten years	29,981	30,197
Due after ten years	20,589	21,250
Loan-backed securities	260,354	260,354
Total Bonds	$489,522	$492,834

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

Net investment income and gross realized gains and losses for the years ending December 31, 1998 and 1997 are: (in thousands)

	December 31, 1998			December 31, 1997		
	Net Investment Income	Gross Realized Gains	Gross Realized Losses	Net Investment Income	Gross Realized Gains	Gross Realized Losses
Government Bonds - Issuer Obligations	$14,405	$1,118	$ 81	$14,021	$ 142	$ 212
Government Bonds - Backed by Loans	4,468	190		4,912	163	
U. S. Agency Bonds - Backed by Loans	11,336			10,816	43	
Collateralized Mortgage Obligations	2,439	3	1	2,178		43
Common Stock	1,051	5,293	3,377	706	2,894	778
Other	2,942			2,788		
Total	36,641	$6,604	$3,459	35,421	$3,242	$1,033
Investment Expenses	(1,865)			(1,664)		
Total	$34,776			$33,757		

4. HOME OFFICE PROPERTY

At December 31, 1998 and 1997 home office property consisted of the following: (in thousands)

	1998	1997
Cost	$12,568	$12,129
Accumulated depreciation	(1,131)	(837)
Total	$11,437	$11,292
Depreciation expense	$ 294	$ 281

5. ELECTRONIC DATA PROCESSING EQUIPMENT

At December 31, 1998 and 1997, admitted electronic data processing equipment consisted of the following: (in thousands)

	1998	1997
Cost	$2,439	$2,420
Accumulated depreciation	(2,160)	(1,907)
Total	$ 279	$ 513
Depreciation expense	$ 261	$ 510

6. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	1998	1997
Direct balance at January 1,	$440,691	$401,544
Less reinsurance recoverables	54,668	41,816
Net balance at January 1,	$386,023	$359,728
Net incurred related to:		
Current year	$ 73,423	$147,094
Prior years	(1,596)	(23,999)
Total incurred	$ 71,827	$123,095
Net paid related to:		
Current year	$ 22,130	$ 29,592
Prior years	78,880	67,208
Total paid	$101,010	$ 96,800
Direct balance at December 31,	$487,491	$440,691
Less reinsurance recoverables	130,651	54,668
Net balance at December 31,	$356,840	$386,023

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 $1,596,000 and $23,999,000 in 1998 and 1997 because of lower-than-anticipated losses on the development of the claims.

7. REINSURANCE ACTIVITY

The Corporation limits its loss exposure on large risks by ceding certain levels of risks with other insurers or reinsurers through general reinsurance treaties. Amounts pertaining to reinsurance premiums which were deducted from premiums earned were approximately $70,211,000 and $18,101,000 for the years ending December 31, 1998 and 1997.

Estimated amounts pertaining to reinsurance that were deducted from losses incurred and loss adjustment expenses were approximately $85,293,000 and $14,371,000 for the years ended December 31, 1998 and 1997. The amount of ceded commissions deducted from other underwriting expenses during 1998 was approximately $18,454,000.

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. Included in insurance recoverables netted with loss and loss adjustment expense reserves are receivables from two reinsurance companies of approximately $28 million each. At December 31, 1998, the Corporation held collateral under reinsurance agreements in the form of letters of credit totaling $3,852,000.

8. POLICYHOLDERS' SURPLUS

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 at December 31, 1996, in the event the IRS should determine that the Corporation is taxable. During 1997, the United States Congress codified existing standards clarifying the tax status of the Corporation. (See Note 2j.) As a result, the Corporation removed this restriction on policyholders' surplus during 1997.

9. COMMITMENTS

At December 31, 1998, the Corporation was committed under the terms of non-cancelable office and equipment leases as follows (in thousands):

Year	Office Leases	Equipment Leases
1999	103	1,066
2000	23	409
2001	23	65
2002	0	14
2003 and later	0	0

The Corporation expended approximately $1,487,000 and $1,610,000 during the years ending December 31, 1998 and 1997 for lease payments.

10. RETIREMENT PLANS

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 5% for each of the years ending December 31, 1998 and 1997 of each covered employee's salary and totaled approximately $549,000 and $550,000 for 1998 and 1997.

The Corporation also sponsored a savings plan under Section 457 of the Internal Revenue Code covering all eligible employees. Participating employees could contribute up to 15% of their eligible salary with the Corporation matching up to 5% of their eligible salary. Contributions expense of the Corporation was approximately $287,000 in 1997. Effective December 31, 1997, the Corporation froze all contributions to this savings plan and transferred the assets to a trust account. Participating employees must meet certain eligibility requirements, primarily termination of employment or reaching retirement age, before withdrawing contributions.

Effective January 1, 1998, the Corporation began sponsoring a savings plan under Section 401k of the Internal Revenue Code covering all eligible employees. Participating employees may contribute up to 15% of their eligible salary with the Corporation matching up to 5% of their eligible salary. Contributions expense of the Corporation was approximately $373,000 in 1998.

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 1998 or 1997.

In addition, the Corporation leased space in its office building to a company owned by a board member during 1998. The rent paid by this company was comparable to rent paid by other tenants in the office building and was not significant to the Corporation.

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INDEPENDENT AUDITORS' ANNUAL LETTER OF QUALIFICATION

Board of Directors
Louisiana Workers' Compensation Corporation

We have audited, in accordance with generally accepted auditing standards, the statutory financial statements of Louisiana Workers' Compensation Corporation (the Corporation) as of December 31, 1998 and 1997 and for the years then ended and have issued our report thereon dated April 13, 1999. 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 engagement director and manager, who are certified public accountants, have fourteen years and eight years, respectively, of experience in public accounting, and are experienced in auditing insurance companies. Members of the engagement team, most of whom have experience in auditing insurance enterprises and all 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 Insurance Department of the State of Louisiana 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 Insurance Department of the State of Louisiana. 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 internal control 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 work papers prepared in the conduct of our audit until the Insurance Department of the State of Louisiana has filed a Report of Examination covering 1998, but not longer than seven years. After notification to the Corporation, we will make the work papers available for review by the Insurance Department of the State of Louisiana at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Insurance Department of the State of Louisiana, photocopies of pertinent audit work papers may be made (under the control of the accountant) and such copies may be retained by the Insurance Department of the State of Louisiana.

e. This is the fourth 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.

This letter is furnished solely to enable you to comply with the Insurance Department of the State of Louisiana requirements referred to herein and with the National Association of Insurance Commissioner Annual Statement Instructions and should not be used for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

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REPORT ON INTERNAL CONTROL

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, 1998, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control would not necessarily disclose all matters in internal control 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 internal control 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 internal control 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 any other purposes.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

Financial Statements for the Years Ended
December 31, 1998 and 1997 and
Independent Auditors' Report

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Compensation and Independent Auditors'
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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 and Subsidiary (the Corporation) as of December 31, 1998 and 1997, and the related consolidated statements of income and comprehensive income, changes in policyholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Workers' Compensation Corporation and Subsidiary as of December 31, 1998 and 1997, and the results of their operations and their 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 13, 1999 on our consideration of the Corporation's internal control over financial reporting and our tests of their compliance with certain provisions of laws and regulations.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

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

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

ASSETS	December 31, 1998	December 31, 1997
Cash and cash equivalents	$ 18,017	$ 25,652
Investment securities available for sale - Note 3	572,435	530,341
Premiums receivable (net of allowance of $9,300,000 in 1998 and $10,500,000 in 1997)	45,436	44,602
Recoverable from reinsurer	131,368	54,770
Fixed assets less accumulated depreciation - Note 5	13,938	14,470
Deferred policy acquisition costs - Note 4	568	679
Deferred start-up costs - Note 10	-	-
Other assets	6,183	6,780
TOTAL ASSETS	$ 787,945	$ 677,294

LIABILITIES AND POLICYHOLDERS' EQUITY

	1998	1997
Liabilities		
Losses and loss adjustment expenses - Note 6	$ 487,491	$ 440,691
Unearned premium reserve	11,513	13,702
Contingent commissions	750	1,522
Policyholders' deposits	15,465	20,191
Premium taxes and other liabilities	69,055	50,938
TOTAL LIABILITIES	584,274	527,044
Policyholders' equity		
Equity	179,409	137,615
Accumulated net unrealized gains	24,262	12,635
TOTAL POLICYHOLDERS' EQUITY	203,671	150,250
TOTAL LIABILITIES AND POLICYHOLDERS' EQUITY	$ 787,945	$ 677,294

See notes to consolidated financial statements.

LOUISIANA WORKERS' COMPENSATION CORPORATION
Consolidated Statements of Income and Comprehensive Income
Years Ended December 31, 1998 and 1997
(in thousands)

	1998	1997
Net premiums earned	$ 98,026	$ 170,532
Net investment income	34,082	33,057
Net gain on sale of investments	3,145	2,209
Other income	1,473	1,026
Total revenues	136,726	206,824
Underwriting expenses:		
Losses and loss adjustment expenses	71,125	122,397
Underwriting expenses	21,399	48,126
Other expenses	2,408	2,589
Total underwriting expenses	94,932	173,112
Net income	$ 41,794	$ 33,712
Other comprehensive income:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	14,772	16,639
Less: reclassification adjustment for gains included in net income	(3,145)	(2,209)
Total other comprehensive income	11,627	14,430
Comprehensive income	$ 53,421	$ 48,142

See notes to consolidated financial statements.

Consolidated Statements of Changes in Policyholders' Equity
Years Ended December 31, 1998 and 1997
(in thousands)

	Accumulated unrealized net gains (losses)	Policyholders' equity	Total
Balance, January 1, 1997	($1,795)	$103,903	$102,108
Comprehensive Income	14,430	33,712	48,142
Balance, December 31, 1997	12,635	137,615	150,250
Comprehensive Income	11,627	41,794	53,421
Balance, December 31, 1998	$24,262	$179,409	$203,671

See notes to consolidated financial statements.

LOUISIANA WORKERS' COMPENSATION CORPORATION
Consolidated Statements of Cash Flows
Years Ended December 31, 1998 and 1997

	1998	1997
Cash flows from operating activities:		
Net income	$ 41,794	$ 33,712
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation	1,530	2,190
Amortization of deferred start-up costs	-	356
Gain on sales of investments	(3,145)	(2,209)
Net amortization of bond premium	1,377	885
Premiums receivable written off	3,607	3,033
Increase in premiums receivable	(3,241)	(4,867)
Decrease in allowance for doubtful accounts	(1,200)	(800)
Increase in recoverable from reinsurer	(76,598)	(12,564)
Decrease (increase) in deferred policy acquisition costs	111	(70)
Decrease (increase) in other assets	597	(430)
Increase in liability for losses and loss adjustment expenses	46,800	39,147
Increase (decrease) in unearned premium reserve	(2,189)	10,928
Increase (decrease) in contingent commissions	(772)	1,218
Increase (decrease) in other expenses due and payable	18,117	(2,387)
Net cash provided by operating activities	26,788	68,142
Cash flows from investing activities:		
Purchase of investments	(256,534)	(206,428)
Proceeds from paydowns and sales of investments	227,835	148,029
Purchases of fixed assets - net	(998)	(772)
Net cash used in investing activities	(29,697)	(59,171)
Cash flows from financing activities:		
Decrease in policyholders' deposits	(4,726)	(11,466)
Net cash used in financing activities	(4,726)	(11,466)
Net decrease in cash and cash equivalents	(7,635)	(2,495)
Beginning cash and cash equivalents	25,652	28,147
Ending cash and cash equivalents	$ 18,017	$ 25,652

See notes to consolidated financial statements.

1. ORGANIZATION

Louisiana Workers' Compensation Corporation (the Corporation) is a private, nonprofit corporation created to operate as a domestic mutual insurance company by Act 814 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."* At December 31, 1998, this guarantee has not expired. 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 provides 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, 1998 and 1997, the Corporation's policyholders' equity under these accounting practices was approximately $185,788,000 and $136,691,000. Of these amounts, $3,000,000 was required to satisfy minimum capital requirements in each year. The Corporation had net income under these accounting practices of approximately $40,682,000 and $33,237,000 for the years ending December 31, 1998 and 1997.

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 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 estimated fair value. Unrealized gains and losses on available for sale securities are reflected as an adjustment of policyholders' equity and other comprehensive income and the related asset is stated at estimated fair 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 represent the estimated ultimate net cost of all reported and unreported losses incurred. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Management also relies on certain critical assumptions based on external industry data sources. 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. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current 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.

g. Policyholders' Deposits
Policyholders' deposits represent amounts which have been collected from policyholders as payment security. The deposits are collected in advance of the policy year and the amount of the deposit is based on the estimated annual premium. Upon cancellation or termination of the policy, the deposit is applied to any unpaid premiums with any balance remaining refunded to the policyholder. The policyholders' deposits are interest bearing to the policyholder. Interest expensed on policyholders' deposits during 1998 and 1997 is approximately $486,000 and $1,232,000 and is included in general and administrative expenses. Interest paid during 1998 and 1997 on policyholders' deposits was approximately $775,000 and $1,352,000.

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 is recognized as earned and reported as premiums receivable. Premiums receivable are periodically reviewed for collectibility and an estimated allowance is established.

i. Reinsurance
In the normal course of business, the Corporation reduces its exposure for any one loss by reinsuring certain levels of risk with other insurance enterprises or reinsurers. The Corporation remains liable to the extent reinsuring companies are unable to meet their treaty obligations. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. The effects of subsequent changes in estimated recoverables are accounted for with a corresponding charge or credit to income.

j. Income Taxes
The Corporation was created by the State of Louisiana to provide a residual market for state mandated workers' compensation insurance. During 1997, the United States Congress codified existing standards clarifying the tax-exempt status of the Corporation and other similar corporations. Internal Revenue Code Section 501(c)27 (IRC 501(c)27) establishes certain conditions and criteria that must be met and maintained on a continuing basis to qualify for tax-exempt status. Although formal notification has not yet been received from the Internal Revenue Service, the Corporation maintains that all such conditions and criteria have been met and that the Corporation is a tax-exempt entity under IRC 501(c)27. Although the Agency is not a tax-exempt organization, the impact of its income taxes are not material to the consolidated entity. Therefore, no provision has been made in these financial statements for income taxes.

k. Advertising Costs
Advertising costs are expensed as incurred.

l. Reclassifications
Certain amounts reported in the 1997 financial statements have been reclassified to conform with the 1998 presentation.

3. INVESTMENTS

At December 31, 1998 and 1997, all investments were classified as available for sale and were registered in the Corporation's name. At December 31, 1998 and 1997, the amortized cost and estimated fair value of the portfolio are: (in thousands)

	December 31, 1998				December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Government Bonds - Issuer Obligations	$229,168	$ 3,508	$ 168	$232,508	$217,567	$ 876	$ 626	$217,817
Government Bonds - Backed by Loans	51,090	2,465		53,555	61,465	2,733	10	64,188
U. S. Agency Bonds - Backed by Loans	165,604	5,477	144	170,937	161,090	4,096	195	164,991
Collateralized Mortgage Obligations	43,660	277	61	43,876	38,371	100	58	38,413
Common Stocks	58,650	13,842	933	71,559	39,213	6,517	798	44,932
	$548,172	$25,569	$1,306	$572,435	$517,706	$14,322	$1,687	$530,341

The scheduled maturity at December 31, 1998, is: (in thousands)

	Amortized Cost	Estimated Fair Value
Due in one year or less	10,009	10,055
Due after one year through five years	168,589	171,509
Due after five years through ten years	29,981	30,065
Due after ten years	20,589	20,880
Mortgage-backed securities	260,354	268,367
Common Stocks	58,650	71,559
Total	548,172	572,435

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, 1998 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, 1998 and 1997 are: (in thousands)

	December 31, 1998			December 31, 1997		
	Net Investment Income	Gross Realized Gains	Gross Realized Losses	Net Investment Income	Gross Realized Gains	Gross Realized Losses
Government Bonds – Issuer Obligations	$13,954	1,118	81	$13,451	$ 142	$ 212
Government Bonds – Backed by Loans	4,468	190		4,912	163	
U. S. Agency Bonds – Backed by Loans	11,336			10,816	43	
Collateralized Mortgage Obligations	2,439	3	1	2,178		43
Common Stock	1,051	5,293	3,377	706	2,894	778
Other	1,406			1,442		
Total	34,654	$6,604	$3,459	33,505	$3,242	$1,033
Investment Expenses	(572)			(448)		
Total	$34,082			$33,057		

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)

	1998	1997
Balance, beginning of year	$ 679	$ 609
Acquisition costs deferred	1,531	1,609
Amortization charged to income	(1,642)	(1,539)
Balance, end of year	$ 568	$ 679

5. FIXED ASSETS

At December 31, 1998 and 1997, fixed assets consisted of: (in thousands)

	1998	1997
Land	$ 605	$ 605
Building	12,137	11,524
Data processing assets	8,248	7,996
Automobiles	1,192	1,610
Furniture, fixtures, and equipment	2,406	2,122
Subtotal	24,588	23,857
Less accumulated depreciation	(10,650)	(9,387)
Net fixed assets	$13,938	$14,470
Depreciation expense	$ 1,530	$ 2,190

6. LIABILITY FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	1998	1997
Direct Balance at January 1,	$440,691	$401,544
Less Reinsurance Recoverables	54,668	41,816
Net Balance at January 1,	386,023	359,728
Net Incurred Related to:		
Current Year	72,721	146,396
Prior Years	(1,596)	(23,999)
Total Incurred	71,125	122,397
Net Paid Related to:		
Current Year	21,428	28,894
Prior Years	78,880	67,208
Total Paid	100,308	96,102
Net Balance at December 31,	356,840	386,023
Plus Reinsurance Recoverables	130,651	54,668
Direct Balance at December 31,	$487,491	$440,691

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 $1,596,000 and $23,999,000 in 1998 and 1997 because of lower-than-anticipated losses on the development of the claims.

7. REINSURANCE ACTIVITY

The Corporation limits its loss exposure on large risks by ceding certain levels of risks with other insurers or reinsurers through general reinsurance treaties. Amounts pertaining to reinsurance premiums which were deducted from premiums earned were approximately $70,211,000 and $18,101,000 for the years ending December 31, 1998 and 1997.
Estimated amounts pertaining to reinsurance that were deducted from losses incurred and loss adjustment expenses were approximately $85,293,000 and $14,371,000 for the years ended December 31, 1998 and 1997. The amount of ceded commissions deducted from underwriting expenses during 1998 was approximately $18,454,000.

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. Included in recoverable from reinsurers are receivables from two reinsurance companies of approximately $28 million each. At December 31, 1998, the Corporation held collateral under reinsurance agreements in the form of letters of credit totaling $3,852,000.

8. COMMITMENTS

At December 31, 1998, the Corporation was committed under the terms of non-cancelable office and equipment leases as follows (in thousands):

Year	Office Leases	Equipment Leases
1999	103	1,066
2000	23	409
2001	23	65
2002	0	14
2003 and later	0	0

The Corporation incurred rental expense of approximately $1,487,000 and $1,610,000 during the years ending December 31, 1998 and 1997 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 incurred were 5% for each of the years ending December 31, 1998 and 1997 of each covered employee's salary and totaled approximately $549,000 and $550,000 for 1998 and 1997.

The Corporation also sponsored a savings plan under Section 457 of the Internal Revenue Code covering all eligible employees. Participating employees could contribute up to 15% of their eligible salary with the Corporation matching up to 5% of their eligible salary. Contributions expense of the Corporation was approximately $287,000 in 1997. Effective December 31, 1997, the Corporation froze all contributions to this savings plan and transferred the assets to a trust account. Participating employees must meet certain eligibility requirements, primarily termination of employment or reaching retirement age, before withdrawing contributions.

Effective January 1, 1998, the Corporation began sponsoring a savings plan under Section 401k of the Internal Revenue Code covering all eligible employees. Participating employees may contribute up to 15% of their eligible salary with the Corporation matching up to 5% of their eligible salary. Contributions expense of the Corporation was approximately $373,000 in 1998.

10. 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 1998 or 1997.

In addition, the Corporation leased space in its office building to a company owned by a board member during 1998. The rent paid by this company was comparable to rent paid by other tenants in the office building and was not significant to the Corporation.

12. PENDING ACCOUNTING PRONOUNCEMENTS

SOP 97-3 *Accounting by Insurance and Other Enterprises for Insurance-Related Assessments* was issued on December 10, 1997, and is effective for years beginning after December 15, 1998. This pronouncement changes the accounting by insurance and other enterprises for assessments related to insurance activities. The Corporation has not determined the impact of this accounting pronouncement on its financial statements.

SOP 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* was issued during 1998, and is effective for years beginning after December 15, 1998. This pronouncement changes the accounting for the costs of computer software developed or obtained for internal use. The Corporation has not determined the impact of this accounting pronouncement on its financial statements.

Supplemental Information

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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Louisiana Workers' Compensation Corporation

Our report on our audit of the basic consolidated financial statements of Louisiana Workers' Compensation Corporation and Subsidiary for 1998 appears on page 2. That audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplemental Schedule of Board Member Compensation for the year ended December 31, 1998, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

LOUISIANA WORKERS' COMPENSATION CORPORATION
Supplemental Schedule of Board Member Compensation
Year Ended December 31, 1998
(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. The following amounts were paid to the Corporation's Board of Directors during the year ended December 31, 1998.

Boysie Bollinger	7
Joe Burns	8
Clark Cosse' III	8
Carl Crowe	12
Barbara Fagan	7
Seth Keener	8
John Kennedy	7
Ed Taylor	7
Aubrey Temple	7

Other Report Required by *Government Auditing Standards*

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Report on Compliance and on Internal Control over Financial Reporting 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 consolidated financial statements of Louisiana Workers' Compensation Corporation as of and for the year ended December 31, 1998, and have issued our report there on dated April 13, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Louisiana Workers' Compensation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Louisiana Workers' Compensation Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no maters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 any other purposes.

Postlethwaite & Netterville

Baton Rouge, Louisiana
April 13, 1999

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

Longshore and Harbor Workers' Compensation Act, Form LS-513, Report of Payments for the Year Ended December 31, 1998 and Independent Auditors' Report

LOUISIANA WORKERS' COMPENSATION CORPORATION

INDEX TO
LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
FORM LS-513, REPORT OF PAYMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

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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, 1998. 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, 1998, 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 the 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 13, 1999

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

LOUISIANA WORKERS' COMPENSATION CORPORATION

LONGSHORE AND HARBOR WORKERS' COMPENSATION ACT
FORM LS-513, REPORT OF PAYMENTS
FOR THE YEAR ENDED DECEMBER 31, 1998

COMPENSATION ACT	**Number of Cases Compensated**	**Compensation Payments** (000)	**Medical Payments** (000)
Longshore	1,474	$11,519	$9,385
Defense Base	-	-	-
Nonappropriated Funds	-	-	-
Outer Continental Shelf	-	-	-
District of Columbia	-	-	-
Total Payments		$11,519	$9,385
Total Compensation and Medical Payments			**$20,904**

See note to Form LS-513

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Postlethwaite & Netterville

A Professional Accounting Corporation

CERTIFIED PUBLIC ACCOUNTANTS

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April 13, 1999

To the Board of Directors
Louisiana Workers' Compensation Corporation

We have audited the financial statements of Louisiana Workers' Compensation Corporation for the year ended December 31, 1998, and have issued our report thereon dated April 13, 1999. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of Louisiana Workers' Compensation Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Louisiana Workers' Compensation Corporation are described in Note 2 to the financial statements. We noted no transactions entered into by the Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

The Corporation adopted Financial Accounting Standards No. 130 "Reporting Comprehensive Income" which requires the presentation of all changes in policyholders' equity during the period from transactions and other events and circumstances from non-owner sources combined with net income.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

We believe that the liability for losses and loss adjustment expenses and related reinsurance recoverables are significant and particularly sensitive accounting estimates. Management's estimate of the liability for losses and loss adjustment expenses and related reinsurance recoverables are based on the loss reports on individual cases, the cost of processing and investigating claims, and estimates of the cost of claims incurred but not reported. As a part of these estimates, management relies on historical trends and assumptions developed by NCCI for activity in the State of Louisiana, as well as the expertise of Milliman and Robertson, Inc. who also opines on the reasonableness of the estimated liabilities for losses and loss adjustment expenses. We have performed tests of the historical data used by management in these estimates and relied on a review by Tillinghast – Towers Perrin of the key factors and assumptions contained in the Milliman and Robertson, Inc. actuarial report and opinion on the liability for losses and loss adjustment expenses to satisfy ourselves as to its reasonableness in relation to the financial statements taken as a whole.

Management also makes significant assumptions in its estimates of investment valuations, to arrive at the allowance for doubtful accounts receivable, depreciation and amortization, and certain other accrued expenses.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may or may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Corporation that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgement, either individually or in the aggregate, have a significant effect on the Corporation's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants during the past year that are subject to the requirements of Statement on Auditing Standards No. 50, *Reports on the Application of Accounting Principles*.

Issues Discussed Prior to Retention of Independent Auditors

We had no discussions with management related to significant accounting and auditing matters prior to our retention as the Corporation's auditors.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Louisiana Workers' Compensation Corporation and the Louisiana Legislative Auditors Office and should not be used for any other purpose.

Postlethwaite & Netterville