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LOUISIANA INSURANCE GUARANTY ASSOCIATION

FINANCIAL STATEMENTS
(Cash Basis)

YEARS ENDED DECEMBER 31, 1998 AND 1997

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TABLE OF CONTENTS

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Postlethwaite & Netterville
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CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

Members and Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position arising from cash transactions of Louisiana Insurance Guaranty Association as of December 31, 1998 and 1997, and the related statements of activities 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 applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Insurance Guaranty Association as of December 31, 1998 and 1997, and its changes in net assets during the years then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 18, 1999 on our consideration of the Louisiana Insurance Guaranty Association's internal control over financial reporting and our tests of its compliance certain provisions of laws and regulations.

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

Postlethwaite & Netterville

Baton Rouge, Louisiana
February 18, 1999

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ASSOCIATED OFFICES IN PRINCIPAL CITIES OF THE UNITED STATES

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 1998 AND 1997

ASSETS

	1998	1997
Cash	$ 95,654	$ 1,502,400
Investments	83,097,527	164,011,882
	$ 83,193,181	$ 165,514,282

LIABILITIES AND NET ASSETS

	1998	1997
Outstanding checks in excess of bank balances	$ 828,866	$ 1,268,432
Bonds payable	-	91,432,376
	828,866	92,700,808
Net Assets	82,364,315	72,813,474
	$ 83,193,181	$ 165,514,282

The accompanying notes are an integral part of these statements.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 1998 AND 1997

	1998	1997
RECEIPTS		
Assessments received from members	$ -	$ 76,588,108
Distributions from liquidators	24,169,428	6,679,558
Interest income	6,773,412	7,375,198
Net gains on investments	266,181	-
Restitutions	174,302	76,691
Other receipts	320	30,292
	31,383,643	90,749,847
DISBURSEMENTS		
Claims paid	12,551,580	12,534,838
Unearned premiums paid	26,949	712,863
Legal fees and expenses	3,984,573	3,913,489
Claims handling costs	1,135,165	1,479,322
Professional and bank fees	251,903	166,241
Staff salaries, taxes, and benefits	318,579	319,362
Travel, meetings, and seminars	28,364	23,862
Administrative expenses	192,082	211,536
Interest expense	1,345,095	4,488,075
Loss on bond defeasement (Note 5)	348,529	-
Return of 1998 assessments collected in 1997	1,649,983	-
	21,832,802	23,849,588
EXCESS OF RECEIPTS OVER DISBURSEMENTS	9,550,841	66,900,259
Net Assets - beginning of the year	72,813,474	5,913,215
Net Assets - end of the year	$ 82,364,315	$ 72,813,474

The accompanying notes are an integral part of these statements.

LOUISIANA INSURANCE GUARANTY ASSOCIATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization

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

The Association has consolidated its operations and expanded its capabilities by establishing an in house Claims Unit to handle all claims processing, except workers' compensation claims. Workers' compensation claims continue to be processed by the Association's one remaining outside claims service provider. All administrative functions are performed by the Association's staff.

Accounting Method

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

Income Taxes

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

Lease Commitment

The Association has entered into operating leases for office space for which the Association paid $131,218 and $126,018 during the years ended December 31, 1998 and 1997, respectively. These leases require future minimum payments of $42,996 in 1999. The Association intends to renew or enter into new long-term lease commitments during 1999.

NOTES TO FINANCIAL STATEMENTS

2. Investments

The Association investments are recorded at cost and consisted of the following at December 31, 1998 and 1997:

	1998		1997	
	Cost	Fair Value	Cost	Fair Value
U.S. Government securities under Agreement to sell	$ 273,000	$ 273,000	$ 442,000	$ 442,000
Money market accounts invested in U.S. Treasury obligations	13,059,749	13,105,125	126,125,452	126,125,452
Collateral investment contracts	-	-	37,444,430	37,444,430
U.S. Treasury notes	33,215,918	33,392,533	-	-
U.S. Government Agency obligations	36,548,860	36,730,939	-	-
	$ 83,097,527	$ 83,501,597	$164,011,882	$ 164,011,882

During 1998, the Association began to purchase individual securities issued by the U.S. Treasury and obligations issued or guaranteed by the U.S. Government and its Agencies. The fair value of these securities is based on quoted market prices. The Association enters into short-term repurchase agreements with Louisiana financial institutions whereby the Association purchases U.S. Government securities with an agreement to resell the securities to the financial institution at cost. The Association also deposits funds in money market funds invested in U.S. Treasury obligations.

Related to the Association's defeased bonds (See Note 5), the Association had investments in collateral investment contracts represent U.S. Treasury securities owned by the Association and repurchase agreements entered into with Westdeutsche Landesbank Girozentrale, New York (WLG) which are agreements between specific entities with guaranteed interest rates over the life of the respective bond issues and have no secondary market. Therefore, the market value is considered the same as cost.

3. Permanently Restricted Net Assets

Net assets represent funds collected from member insurance companies in excess of funds disbursed to pay claims and expenses of the Association. All assets are considered permanently restricted under the Act creating the Association. Excess funds are to be used for the payment of claims, return of unearned premiums and reimbursement of expenses incurred for the insolvent member insurance companies (See Note 7).

Pursuant to a plan of rehabilitation of Bonneville Insurance Company, at December 31, 1998 and 1997, $369,549 and $358,077, respectively, of the Association's investments were held in trust and restricted to the payment of claims pursuant to Bonneville Insurance Company. The Association estimates that substantially all of these funds will be expended for claims and any remaining funds will be returned pursuant to this plan of rehabilitation.

NOTES TO FINANCIAL STATEMENTS

4. **Assessments**

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

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

Pursuant to agreements entered into by the Association related to the issuance of bonds, see Note 5, the Association was obligated to assess member insurance companies the maximum permitted percentage of net direct written premiums each calendar year until these bonds and related obligations were paid in full or otherwise defeased. As discussed in Note 5, the Association defeased all outstanding bond obligations. On that date, the Association's Board of Directors reduced the 1998 assessment to one percent (1%) of each member insurer's net direct written premium during 1997. On December 1998, the Association's Board further reduced the 1998 assessment to zero and returned to members all amounts previously collected for 1998 assessments, including the return of $1,649,983 of 1998 assessments collected in 1997.

5. **Bonds Payable**

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

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

The Series 1993 bonds outstanding are non-callable and bear interest at rates ranging from 3.90% to 4.60% (effective average interest rate of 4.539% for term of bonds) which is payable semi-annually on each April 1 and October 1. Certain of the Series 1993 bonds were sold with an original issue discount of $602,624 which was shown as a reduction of the outstanding principal for the bonds.

5. **Bonds Payable (continued)**

On February 2, 1998, the Association entered into an Escrow Deposit Agreement and deposited $93,126,046 into escrow trust accounts established to provide for the repayment of all scheduled bond maturities and related interest costs when due. By entering into these agreements and investing the escrow trust funds in securities issued by the U. S. Treasury, which are restricted only for the repayment of the bonds and related costs, the Association's outstanding bond obligations at that date of $92,035,000 were considered defeased. Accordingly, these bonds and investments held in trust, as well as all related interest income and expense are not reflected in the Association's financial statements. At December 31, 1998, the bond escrow trust investments consist of State and Local Government Series securities issued by the U.S. Treasury with a cost of $75,700,400. These investments, as well as the defeased bonds outstanding of $75,705,000 at December 31, 1998, are not reflected in the Association's financial statements.

6. **Early Access Distributions by Liquidators**

The Association files claims against the estates of insolvent insurers in an effort to recover a portion of the policyholder claims paid and related expenses from the assets of the insolvent insurer. During the years ended December 31, 1998 and 1997, the Association received $24,179,428 and $6,679,558, respectively, of such distributions which are reflected as receipts in these financial statements. No estimate is available of future potential distributions from liquidations due to the uncertainty and difficulty in accurately estimating these amounts.

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

The funds of the Association are used to pay insurance claims of insolvent member insurance companies (See Note 3). These claims are pursuant to the Louisiana Insurance Guaranty Law, LA. R.S. 22:1375-1394. As of December 31, 1998, the Association had 2,544 open claims files outstanding, a substantial portion of which are involved in litigation. Additionally, other member insurance companies may be declared insolvent subsequent to the date of these financial statements.

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

Provided on the next page is an unaudited condensed balance sheet of the Association at December 31, 1998, on a modified accrual basis which recognizes management's estimate of claims and related liabilities, assessments received in advance, and accruals of interest. This information is intended to reflect only certain estimated assets and liabilities of the Association and is not intended to represent the financial position of the Association in accordance with generally accepted accounting principles. These estimates are expected to vary as additional information becomes available.

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

The condensed unaudited balance sheet does not provide for accruals of amounts due from liquidators of insolvent insurance companies, adjustments of investments to estimated fair value, and accruals of operating costs owed at year end not included in the reserves for claims administration expenses.

As described in Note 4, the Association has been granted the authority to assess member insurers at a rate of two percent (2%) which is expected to produce approximately $78 million annually. Additionally, LA R.S. 22:1382 provides that if the maximum assessment and other assets available to the Association are insufficient to make all necessary payments, the Association may borrow additional funds or payments can be reduced on a prorated basis and unpaid balances are to be paid as funds become available.

ASSETS	December 31, 1998 Unaudited	
Cash	$ 95,654	
Investments	83,097,527	
Accrued interest receivable	954,697	
Total assets	$ 84,147,878	
LIABILITIES AND NET ASSETS		
Outstanding checks in excess of bank balances	$ 828,866	
Estimated claims and claims administration expenses payable	65,962,356	(1)
Total liabilities	66,791,222	
Net assets	17,356,656	(2)
Total liabilities and net assets	$ 84,147,878	

(1)Represents management's estimate of claims and claims administration expense reserves related to open claim files at December 31, 1998. Management estimates that these claims and expenses should become due and be paid over a projected five year period.

(2)The Association projects that the receipt of investment earnings and the continued receipt of proceeds from liquidators of insolvent insurance companies should be sufficient to satisfy the Association's obligations as they become due. As described in Note 4, the Association may also increase the annual assessment rate, up to 2% of direct written premiums, if necessary to pay its obligations.

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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*

Board of Directors
Louisiana Insurance Guaranty Association
Baton Rouge, Louisiana

We have audited the financial statements of Louisiana Insurance Guaranty Association as of and for the year ended December 31, 1998, and have issued our report there on dated February 18, 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 Insurance Guaranty Association'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 Insurance Guaranty Association'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 for the information of the Board of Directors and management of the Louisiana Insurance Guaranty Association, the Commissioner of Insurance, State of Louisiana, and the Legislative Auditor, State of Louisiana. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Postlethwaite & Netterville

Baton Rouge, Louisiana
February 18, 1999

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