

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
PROPERTY INSURANCE ASSOCIATION OF LOUISIANA
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

Release Date 8/26/08

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

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PAILET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants
Management Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Property Insurance Association of Louisiana

We have audited the accompanying financial position of Property Insurance Association of Louisiana (the Organization) as of and for the years ended December 31, 2008 and 2007, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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.

Due to the inadequacy of accounting records for the years prior to 2006, we were unable to form an opinion regarding the amounts at which property and equipment and accumulated depreciation were recorded in the accompanying balance sheet at December 31, 2007 or the amount of depreciation expense for the year then ended. In addition, due to significant turnover in personnel, we were unable to obtain written representations from management of the Organization for the year then ended December 31, 2007 as required by generally accepted auditing principles.

As discussed in Note H to the financial statements, the Organization is involved in various lawsuits and the ultimate outcome of these lawsuits cannot presently be determined. Management is uncertain of the effects the lawsuits will have on the Organization's financial position. Accordingly, no provision for any liability that may result has been made in the financial statements. Nevertheless, due to uncertainties with the lawsuits, it is at least reasonably possible that the litigation will have a significant effect on the financial statements in the near term.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Property Insurance Association of Louisiana as of December 31, 2008 and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2009, on our consideration of Property Insurance Association of Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Paillet, Meunier and Le Blanc, L.L.P.

Metairie, Louisiana

April 22, 2009

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

STATEMENT OF FINANCIAL POSITION

DECEMBER 31,

ASSETS	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and Cash Equivalents	\$ 3,388,448	\$ 1,079,867
Uncollected Assessments	672,846	554,738
Less: Allowance for Doubtful Accounts	(554,738)	(554,738)
Accounts Receivable	1,385	2,289
Accounts Receivable - Affiliated Entities	-	924,539
Total Current Assets	<u>3,507,941</u>	<u>2,006,695</u>
Property and Equipment		
Automobiles	333,386	302,954
Furniture & Fixtures	71,461	77,819
Accumulated Depreciation	(212,601)	(211,923)
Total Property and Equipment	<u>192,246</u>	<u>168,850</u>
Other Assets		
Cash and Cash Equivalents (Board Designated)	254,162	311,425
Investments (Board Designated)	1,901,330	1,776,466
Total Other Assets	<u>2,155,492</u>	<u>2,087,891</u>
Total Assets	<u>\$ 5,855,679</u>	<u>\$ 4,263,436</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable - Affiliated Entities	\$ -	\$ 56,380
Accounts Payable	6,236	240,720
Payroll Liability	-	51,994
Prepaid Assessments	9,000	120,589
Total Current Liabilities	<u>15,236</u>	<u>469,683</u>
Long-Term Liabilities		
Unfunded Pension Liability	2,281,717	359,137
Accumulated Post Retirement Benefits	2,370,967	2,227,401
Total Long-Term Liabilities	<u>4,652,684</u>	<u>2,586,538</u>
Net Assets		
Unrestricted Net Assets	<u>1,187,759</u>	<u>1,207,215</u>
Total Liabilities and Net Assets	<u>\$ 5,855,679</u>	<u>\$ 4,263,436</u>

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

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years Ended December 31,

	<u>2008</u>	<u>2007</u>
UNRESTRICTED NET ASSETS		
Annual Assessments	\$ 4,527,643	\$ 4,956,409
Membership Fees	1,642,000	1,572,469
Inspections	480,935	2,754,353
Other Revenues	<u>99,679</u>	<u>215,623</u>
Total Income	<u>6,750,257</u>	<u>9,498,854</u>
EXPENSES		
Supporting Services	607,567	473,945
Program Services	<u>6,162,146</u>	<u>6,806,945</u>
Total Expenses	<u>6,769,713</u>	<u>7,280,890</u>
Increase (decrease) in Unrestricted Net Assets	(19,456)	2,217,963
Net Assets at Beginning of Year	<u>1,207,215</u>	<u>(1,010,748)</u>
Net Assets at End of Year	<u>\$ 1,187,759</u>	<u>\$ 1,207,215</u>

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

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

STATEMENT OF CASH FLOWS

For the years Ended December 31,

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in Net Assets	\$ (19,456)	\$ 2,217,963
Adjustments to reconcile increase in Net Assets to net cash provided by operating activities:		
Depreciation and amortization	678	71,555
(Increase) decrease in operating assets:		
Uncollected Assessments	(118,108)	-
Accounts Receivable	904	(2,289)
Accounts Receivable - Affiliated Entities	924,539	(874,540)
Increase (decrease) in operating liabilities:		
Payroll Taxes Payable	(51,995)	12,344
Accounts Payable	(234,484)	240,720
Prepaid Assessments	(111,589)	120,589
Accounts Payable - Affiliated Entities	(56,380)	53,052
Unfunded Pension Liability	1,922,580	(1,034,849)
Accumulated Post Retirement Benefits	143,566	26,646
Total adjustments	<u>2,419,711</u>	<u>(1,386,772)</u>
Net cash provided (used) by operating activities	<u>2,400,255</u>	<u>831,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash payments for the purchase of property & equipment	(24,074)	(21,021)
Cash payments for Investments	<u>(124,864)</u>	<u>(50,067)</u>
Net cash provided (used) by investing activities	<u>(148,938)</u>	<u>(71,088)</u>
Net increase in cash and cash equivalents	2,251,317	760,103
Cash and cash equivalents, beginning of year	<u>1,391,293</u>	<u>631,189</u>
Cash and cash equivalents, end of year	<u>\$ 3,642,610</u>	<u>\$ 1,391,292</u>
Presented on the Statement of Financial Position as follows:		
Cash and Cash Equivalents	\$ 3,388,448	\$ 1,079,867
Cash and Cash Equivalents designated for Accumulated Post Retirement Benefits	<u>\$ 254,162</u>	<u>\$ 311,425</u>
Total Cash and Cash Equivalents	<u>\$ 3,642,610</u>	<u>\$ 1,391,292</u>

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

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Property Insurance Association of Louisiana (the Organization) is a non-profit association organized by its member insurance companies to facilitate the writing of such kinds of insurance as are usually written by fire insurers on property located in the State of Louisiana. The Organization has three principal functions: (i) to promulgate rates and forms for fire insurance coverages written by its member insurance companies, subject to approval of the Department of Insurance; (ii) to grade fire districts to assist its member insurers in determining the premium for fire insurance in such districts; and (iii) to conduct inspections of commercial buildings for its member insurers as part of their underwriting process. In addition, the Organization is authorized to perform all duties and exercise all authority granted by law to promote programs calculated to produce and maintain a healthy property insurance market for the benefit of insuring the public in Louisiana.

The Organization is supported entirely by its members who are made up of every insurance company licensed to write fire insurance in the State of Louisiana. The Organization does not receive any appropriations or funding from the state treasury.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property and Equipment

Per the State of Louisiana Governmental Accounting Standards Board's Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," it is the Organization's policy to state property and equipment at cost and record depreciation using a straight-line method over a five-year estimated life.

Expenditures for maintenance and repairs are charged to expense as incurred.

Financial Statement Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization 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. As permitted by the statement, the Organization does not use fund accounting.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(6) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Organization recognizes revenue at the beginning of the year when it submits its assessments to its members. All members are assessed a \$3,000 annual membership fee (\$4,000 for initial members) and the Organization's budgeted expenses are assessed to the members based on their pro-rated proportion of property insurance premiums written within the State.

Employee Benefits

The Organization provides health care benefits, noncontributory Basic Life and Accidental Death & Dismemberment and Loss of Sight Insurance, and Long Term Disability Insurance to virtually all full time employees. The life insurance offered is equivalent to the employee's annual salary; however, employees have the option to purchase additional coverage.

The Organization offers a 401(k) Plan to full-time employees, matching three-fourths of the employees' contributions up to six percent of compensation. In addition, the Organization provides a noncontributory pension plan and noncontributory post-retirement life insurance. Additional details about these plans are described in Note E.

NOTE B - CASH AND CASH EQUIVALENTS

The organization had cash and cash equivalents totaling \$3,642,610 and \$1,391,292 as of December 31, 2008 and 2007, respectively, of which \$254,162 in 2008 and \$311,425 in 2007 is included in money market accounts and is part of the Marketable Securities identified in Note C. The Organization maintains deposits in excess of federally insured limits. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 in 2008. The Organization maintains a \$130,000 target balance in its checking account, all of which is FDIC insured. In addition, the Organization maintains a sweep account for any funds in excess of the target balance of \$130,000. The sweep account is not covered by FDIC insurance as they are not deposited funds. In order to accommodate this, the bank transfers title of certain securities to the Organization with a simultaneous agreement by the Organization to transfer title back by repayment of the funds.

The collateral currently maintained in the overnight sweep repo is exclusively US Agency Mortgage Backed Securities (MBS). The mix of agency MBS is comprised of GNMA, FNMA and FHLMC (Govt Natl Mtge Assn/Federal National Mtge Assn/Federal Home Loan Mortgage Corp). GNMA carries the full faith and credit of the US Treasury. FNMA and FHLMC are instrumentalities created through an act of Congress many years ago.

Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk.

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE C - INVESTMENTS

The investment portfolio was comprised of (1) U.S. Agency securities classified as available-for-sale, and reported at fair value of \$1,901,330 and \$1,776,466 at December 31, 2008 and 2007, respectively and (2) the money market account with a fair value of \$254,162 and \$311,425 at December 31, 2008 and 2007, respectively, which is generated from the dividends and interest from the bonds. Unrealized losses on investments were \$(17,789) and \$1,147 as of December 31, 2008 and 2007, respectively. Investments have been designated as described in Note E

NOTE D - PROPERTY AND EQUIPMENT

A summary of property and equipment and depreciation are as follows as of December 31, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Furniture & Fixtures	\$ 71,461	\$ 77,819
Vehicles	333,386	302,954
	<u>404,847</u>	<u>380,773</u>
Accumulated Depreciation	(212,601)	(211,923)
Net Property and Equipment	<u>\$ 192,246</u>	<u>168,850</u>
Depreciation Expense	<u>\$ 73,008</u>	<u>\$ 71,555</u>

NOTE E - RETIREMENT PLANS

Pension Plan

The Organization provides a noncontributory pension and retirement plan covering substantially all of its employees. The benefits are based on years of service and the employees' compensation for the five consecutive highest years out of the last ten years prior to retirement. Employees hired on or after July 1, 2007 are not eligible for the plan. The Organization's contributions are made in conformance with minimum funding requirements.

The components of the net pension expense for the years ended December 31, 2008 and 2007, respectively, are as follows:

	<u>2008</u>	<u>2007</u>
Vested PBO at prior measurement date	\$ 8,308,403	\$ 7,723,612
Service Costs	171,500	303,380
Interest Costs	425,854	483,713
Actuarial (gain) / loss	(401,090)	146,941
Benefit Payments	(366,375)	(349,243)
Transfer in / (out)	<u>(1,187,438)</u>	<u>-</u>
Vested PBO at current measurement date	<u>\$ 6,950,854</u>	<u>\$ 8,308,403</u>

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE E - RETIREMENT PLANS (continued)

	<u>2008</u>	<u>2007</u>
Fair Value of Assets at prior measurement date	\$ 7,949,266	\$ 6,329,626
Employer Contributions	240,575	1,459,461
Benefit Payments	(366,375)	(349,243)
Actual return on assets	(2,067,797)	509,422
Transfer in / (out)	(1,086,532)	-
Fair Value of Assets at current measurement date	<u>\$ 4,669,137</u>	<u>\$ 7,949,266</u>

The following sets forth the Plan's funded status and amounts recognized in the Organization's statement of financial position as of December 31, 2008 and 2007, respectively:

	<u>2008</u>	<u>2007</u>
Vested Projected Benefit Obligation	\$ 6,950,854	\$ 8,308,403
Fair Value of Plan Assets	<u>4,669,137</u>	<u>7,949,266</u>
Unfunded Pension Liability	<u>\$ 2,281,717</u>	<u>\$ 359,137</u>

Summary of the significant assumptions:

Annual Discount Rate	6.50%	6.00%
Rate Compensation Increase	4.00%	3.50%
Expected Long-Term Return on Assets	8.00%	7.40%

Post Retirement Benefit Obligation

The Organization has a contributory post retirement medical plan and a noncontributory post retirement life insurance plan covering substantially all of its employees. Employees retiring prior to January 1, 1992 pay up to fifteen percent (15%) of the cost of medical coverage up to age sixty-five (65). Employees retiring after January 1, 1992 pay twenty-five percent (25%) until age sixty-five (65). The Organization pays all costs after age sixty-five (65). Current employees become eligible to participate in the retiree health and life insurance plans by meeting age and service requirements of age 55 and 15 years of service. The Organization paid \$143,920 and \$56,508 towards the post retirement medical plan and \$1,148 and \$618 towards the post retirement life insurance plan during 2008 and 2007, respectively.

The following table sets forth the accumulated post retirement benefits obligation for vested employees as of December 31, 2008 and 2007, respectively.

	<u>2008</u>	<u>2007</u>
Accumulated Post-retirement Benefit Obligation (APBO)	\$ 2,370,967	\$ 2,227,401
Fair Value of Plan Assets	-	-
Funded Status	<u>\$ (2,370,967)</u>	<u>\$ (2,227,401)</u>

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE E - RETIREMENT PLANS (continued)

	<u>2008</u>	<u>2007</u>
APBO at beginning of year	\$ 2,227,401	\$ 2,200,755
Service Cost	163,119	302,771
Interest Cost	129,533	118,994
Plan Participants' Contributions	15,386	-
Actuarial loss/(gain) including changes in assumptions	278,280	(272,986)
Transfer In/(out)	(292,282)	-
Benefits paid	(150,470)	(122,133)
APBO at end of year	<u>\$ 2,370,967</u>	<u>\$ 2,227,401</u>

The Organization's Board of Directors has designated the money market assets and all investments for future use in funding the post-retirement benefit obligation which amounted to \$2,155,492 and \$2,087,891 for 2008 and 2007, respectively.

NOTE F - DESCRIPTION OF LEASING ARRANGEMENTS

The Organization maintained operating leases for office space in Metairie, Shreveport, and Baton Rouge, Louisiana. However, the Baton Rouge lease was terminated on April 1, 2008. Minimum lease payments are as follows for the years ending December 31:

2009	86,557
2010	63,471
Thereafter	-
Total	<u>\$ 150,028</u>

In addition, the Organization is a party to an agreement to lease 900 square feet of office space in Shreveport, LA. The original agreement was commenced on February 1, 1995 and terminated on January 31, 1996. Under the terms of the agreement, they agreed to pay \$600.00 per month in advance on the first day of the month. The Organization continues to operate on a month-to-month basis under the same terms of the agreement. If they intend to end the arrangement, they must give 30 days notice of their intention to terminate the month-to-month agreement.

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES

Due to Related Parties

The Organization acted as the management company for the Louisiana Joint Reinsurance Plan ("the Fair Plan"), the Louisiana Insurance Underwriting Plan (the "Coastal Plan"), the Louisiana Automobile Insurance Plan (the "Auto Plan") and the Louisiana Citizens Property Insurance Corporation ("Citizens"). The Organization's operations required it to process invoices and make purchases for each of the managed entities, who reimburse the Organization monthly. As of and for the year ended December 31, 2008, the Organization had incurred the following expenses on behalf of the managed companies, with the following amounts unpaid as of that date:

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE G - TRANSACTIONS WITH AFFILIATES AND RELATED PARTIES (continued)

<u>Managed Entity</u>	<u>Expenses Incurred</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
Auto Plan	\$ 71,391	\$ -	\$ -
Citizens	2,277,794	-	-
Total	<u>\$ 2,349,185</u>	<u>\$ -</u>	<u>\$ -</u>

As of and for the year ended December 31, 2007, the Organization had incurred the following expenses on behalf of the managed companies, with the following amounts unpaid as of that date:

<u>Managed Entity</u>	<u>Expenses Incurred</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>
Fair Plan	\$ 840	\$ 840	\$ -
Coastal Plan	-	-	56,380
Auto Plan	169,919	-	-
Citizens	10,503,220	923,699	-
Total	<u>\$ 10,673,979</u>	<u>\$ 924,539</u>	<u>\$ 56,380</u>

NOTE H - CONTINGENCIES

Litigation

Former Executive

The Organization's former Executive Director has been indicted and these proceedings remain pending. A claim has been filed with the Organization's insurance company on Fidelity Bond Coverage to invoke coverage for potential losses in connection with certain expenses and reimbursements made and received by the Organization's former executive.

Legislative Auditor

There is a current dispute between the Organization and the Legislative Auditor as to whether or not the entity is a public or private organization. The Organization has operated as a private entity since its inception in 1888. In a report dated September 12, 2007, the Louisiana Legislative Auditor asserted that the Organization should be considered a public entity. An appellate court ruling in April, 2009 affirmed the Legislative Auditor's position. The Organization has appealed that ruling to the Louisiana Supreme Court. As of June 16, 2009, the Court has not determined if they will accept the appeal.

Louisiana Citizens Property Insurance Corporation (Citizens)

Citizens filed suit against the Organization asserting numerous contract and tort claims arising out of the Organization's previous operation and administration of Citizens. The Organization has filed exceptions asserting, among other things, that Citizens has no cause of action against the Organization in the lawsuit. Citizens has not responded.

PROPERTY INSURANCE ASSOCIATION OF LOUISIANA

NOTES TO FINANCIAL STATEMENTS

For the years Ended December 31, 2008 and 2007

NOTE H - CONTINGENCIES (continued)

Litigation (continued)

Software Development

The Organization filed a demand for arbitration for breach of contract against their former software developer. The Organization raises allegations of copyright infringement, negligence, and breach of confidentiality of proprietary information against the developer. The case is currently pending.

On behalf of the Organization

The Organization is also involved in various legal disputes on their behalf. At this time, the effects on the Organization's financial statements are not determinable.

NOTE I - SUBSEQUENT EVENTS

I. T. by Design, LLC

An agreement was entered into with I. T. by Design, LLC, effective January 05, 2009 whereby that company will provide complete system support, obtain required software licenses, host a Tier 1 Data Center, maintain the Organization's telephone system, and provide monitoring and virus control services.

The one (1) year agreement may be renewed annually unless prior notice is given at least ninety (90) days in advance. The agreement includes an initial Setup Cost of \$10,000 and annual costs of \$294,000.

PAILET, MEUNIER and LeBLANC, L.L.P.

Certified Public Accountants

Management Consultants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Property Insurance Association of Louisiana

We have audited the financial statements of Property Insurance Association of Louisiana as of and for the year ended December 31, 2008, and have issued our report thereon dated April 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Property Insurance Association of Louisiana's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Property Insurance Association of Louisiana's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Property Insurance Association of Louisiana's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 08-05, and 08-06.

Property Insurance Association of Louisiana's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Property Insurance Association of Louisiana's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, the Legislative Auditor, audit committee, and grant awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Pailot, Meunier and Le Blanc, L.L.P.

Metairie, Louisiana
April 22, 2009

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

We were engaged to audit the financial statements of the Property Insurance Association of Louisiana as of December 31, 2008 and for the year then ended and have issued our report thereon dated April 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

SECTION I - SUMMARY OF AUDITOR'S RESULTS

A. Control Deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements: No. Material weaknesses: No.

B. Noncompliance which is material to the financial statements: No

C. Control Deficiencies in internal control over major programs: N/A.
Material weaknesses: N/A.

D. The type of report issued on compliance for major programs: N/A.

E. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-13: N/ A

F. Major programs: N/A.

G. Dollar threshold used to distinguish between Type A and Type B programs: N/A.

H. Auditee qualified as a low-risk audited under section 530 of OMB Circular A-133: N/A.

I. A management letter was issued: No

SECTION II - FINANCIAL STATEMENT FINDINGS

08-01 Property and Equipment

The Organization has performed an inventory of all assets on hand to determine the property that belongs to the Organization, the time of purchase, and purchase price. However, at this time they are attempting to obtain an Act of Transfer from Louisiana Citizens Property Insurance Corporation.

08-02 Accounts Receivable, Uncollected Assessments

In previous years, the Organization would remove any remaining balances in Uncollected Assessments when the books were closed at the end of the year. They would reverse the entries to the Accounts Receivable and related revenue accounts (Annual Membership Fees, Annual Assessments); thus, writing off any prior balances. However, they recently have gone back through prior years in an attempt to pursue any outstanding balances.

08-03 Retirement Benefits

The Organization offers a noncontributory pension and retirement plan, a contributory post retirement medical plan, and noncontributory post retirement life insurance plan. The Pension Plan was underfunded by \$2,281,717 and the post retirement medical plan and life insurance plans were underfunded by \$2,370,967 as of December 31, 2008.

08-04 Open Meetings

Per Louisiana Administrative Law R.S. 42:4.1 through 10, It is essential to the maintenance of a democratic society that public business be performed in an open and public manner and that the citizens be advised of and aware of the performance of public officials and the deliberations and decisions that go into the making of public policy.

The Attorney General issued an opinion concluding that PIAL is subject to the Open Meetings Law. The recent ruling cited in the Legislative Auditor's report dated September 12, 2007 is on appeal. Until a final decision has been made by the courts, it cannot be accurately stated which of the various public laws PIAL is or is not subject to. The laws which PIAL is or is not subject to is the subject of pending legal proceedings and the outcome of those proceedings will determine if PIAL is subject to additional laws relating to public entities.

08-05 Louisiana Legislative Auditor Reports

The Compliance Audit Division of the Louisiana Legislative Auditor performed a compliance audit of the Property Insurance Association of Louisiana and issued their reports dated May 23, 2007, September 26, 2007, and November 5, 2008. Copies of this report can be requested from the Legislative Auditor's Office at 1600 North Third Street, P.O. Box 94397, Baton Rouge, LA 70804 or through the internet at:

[http://app1.la.state.la.us/PublicReports.nsf/E97A413345730857B62572E40063FA30/\\$FILE/000010F0.pdf](http://app1.la.state.la.us/PublicReports.nsf/E97A413345730857B62572E40063FA30/$FILE/000010F0.pdf)
[http://app1.la.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/\\$FILE/000016C4.pdf](http://app1.la.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/$FILE/000016C4.pdf)
[http://app1.la.state.la.us/PublicReports.nsf/F6ADE6AB6686815D862574F8007E054E/\\$FILE/00005FFC.pdf](http://app1.la.state.la.us/PublicReports.nsf/F6ADE6AB6686815D862574F8007E054E/$FILE/00005FFC.pdf)

08-06 Former Executive Director

The former executive director for Property Insurance Association of Louisiana was also the duly elected Chief Executive Officer for both Louisiana Citizens Property Insurance Corporation and the Louisiana Automobile Insurance Plan. He has been indicted with charges of theft by fraud on December 04, 2008, these proceedings remain pending. A claim has been filed with the Organization's insurance company on Fidelity Bond Coverage to invoke coverage for potential losses in connection with certain expenses and reimbursements made and received by the Organization's former executive.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Not applicable.

**SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2008**

07-01 Outstanding Checks

The Organization had numerous outstanding checks that were stale dated by several years. These checks continued to remain on the ledger, and the Organization did not have proper controls on hand to determine if these stale dated checks had been reissued and needed to be voided, or if there was still an outstanding obligation for these amounts.

Current Status - Resolved. The Organization has cleared all prior outstanding checks.

07-02 Property and Equipment

We were unable to express an opinion on the financial statements because we were unable to satisfy ourselves as to the accuracy of the ending balance of Total Property and Equipment of \$219,384 in the statement of financial position as of December 31, 2006. We recommend that the Organization perform an inventory of all assets on hand to determine the property that belongs to the Organization, the time of purchase, and purchase price.

In the past, this amount was overstated because the Organization maintained the assets for themselves and all related entities on their financial statements. In addition, the assets were maintained on the books at cost basis as the Organization did not recognize depreciation. Furthermore, all expenditure items for Property and Equipment that were purchased throughout the life of the organization, still on hand, were also included in Asset class.

Current Status - Partially Resolved. The Organization performed an inventory of its Property and Equipment. At this time they are attempting to obtain an Act of Transfer from Louisiana Citizens' Property Insurance Corporation.

07-03 Expense, Revenue

Previously, the Organization recorded all transactions with related parties under both Accounts Receivable and Expenses. At the end of each month, invoices were submitted to the related parties in order to seek reimbursement for amounts spent on their behalf during the preceding months. When the invoices were paid, the Organization would reduce the Accounts Receivable balance and record a Revenue.

This double entry was unnecessary and not in accordance with *Generally Accepted Accounting Principles* and/or *Government Auditing Standards*. This resulted in an overstatement of Assets, Net Assets, Revenues and Expenses. In most instances, the balances of these accounts would cancel each other and have no effect towards the Organization's Net Income.

Current Status - Resolved.

07-04 Accounts Receivable, Uncollected Assessments

At the end of the year when the books were closed, the Organization would remove any remaining balances in Uncollected Assessments. They reversed the entries to the Accounts Receivable and related revenue accounts (Annual Membership Fees, Annual Assessments). They have been proceeding with these entries for several years, and have not had an opportunity to review the outstanding accounts to determine if they will be able to pursue the outstanding balances in the following years.

Current Status - Partially resolved. The Organization has detailed the items previously written off as uncollected assessments and has begun efforts to collect same.

07-05 Retirement Benefits

The Organization offers a noncontributory pension and retirement plan, a contributory post retirement medical plan, and noncontributory post retirement life insurance plan. The Pension Plan was underfunded by \$359,137 and the post retirement medical plan and life insurance plans were underfunded by \$2,227,401 as of December 31, 2007.

Current Status - Partially Resolved. Management made a large contribution to the Retirement Plans in an attempt to reduce the liabilities on the books.

07-06 Current Audit not Completed Timely

The Organization will work to improve this in the future.

Current Status - Resolved.

07-07 Open Meetings and various other laws

Per Louisiana Administrative Law R.S. 42:4.1 through 10, It is essential to the maintenance of a democratic society that public business be performed in an open and public manner and that the citizens be advised of and aware of the performance of public officials and the deliberations and decisions that go into the making of public policy.

The Attorney General issued an opinion concluding that PIAL is subject to the Open Meetings Law. The recent ruling cited in the Legislative Auditor's report dated September 12, 2007 is on appeal. Until a final decision has been made by the courts, it cannot be accurately stated which of the various public laws PIAL is or is not subject to. The laws which PIAL is or is not subject to is the subject of pending legal proceedings and the outcome of those proceedings will determine if PIAL is subject to additional laws relating to public entities.

Current Status - Partially Resolved. They are currently holding Open Meetings and are awaiting current litigation to determine the results of other laws relating to public entities.

07-08 Segregation of Duties

The client did not have proper segregation of duties when it comes to initiating, approving, and payment of expense items. The individual department heads made requests for the specific items and then approved the invoices. Once approved, the invoices were submitted to the accounting department for payment. If there were any questions about the validity of the invoices, i.e. invoices were not made available or improperly prepared; management would override the process and have the invoice paid.

Current Status - Resolved.

07-09 Louisiana Legislative Auditor Reports

The Compliance Audit Division of the Louisiana Legislative Auditor performed a compliance audit of the Property Insurance Association of Louisiana and issued their reports dated May 23, 2007, September 26, 2007, and November 5, 2008. Copies of this report can be requested from the Legislative Auditor's Office at 1600 North Third Street, P.O. Box 94397, Baton Rouge, LA 70804 or through the internet at:

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[http://app1.la.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/\\$FILE/000016C4.pdf](http://app1.la.state.la.us/PublicReports.nsf/C717CB9DF18B2240862573670051D067/$FILE/000016C4.pdf)
[http://app1.la.state.la.us/PublicReports.nsf/F6ADE6AB6686815D862574F8007E054E/\\$FILE/00005FFC.pdf](http://app1.la.state.la.us/PublicReports.nsf/F6ADE6AB6686815D862574F8007E054E/$FILE/00005FFC.pdf)

Current Status - Partially Resolved. The organization has reviewed the reports and are aware of the findings. The Organization has implemented additional compensating controls in order to correct the claims listed in the reports.

07-10 Former Executive Director

The former executive director for Property Insurance Association of Louisiana was also the duly elected Chief Executive Officer for both Louisiana Citizens Property Insurance Corporation and the Louisiana Automobile Insurance Plan. He has been indicted with charges of theft by fraud on December 04, 2008, these proceedings remain pending. A claim has been filed with the Organization's insurance company on Fidelity Bond Coverage to invoke coverage for potential losses in connection with certain expenses and reimbursements made and received by the Organization's former executive.

Current Status - Partially Resolved. The organization has replaced the executive director and have amended internal controls accordingly. The proceedings are still pending.

**MANAGEMENT CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2008**

08-01 Property and Equipment

Partially resolved. The Organization has performed a thorough inventory of all assets on hand; however, they have not been able to obtain the Act of Transfer in order to finalize the separation in regards to the Property and Equipment.

08-02 Accounts Receivable, Uncollected Assessments

Partially resolved. The Organization has detailed the items previously written off as uncollected assessments and has begun efforts to collect same.

08-03 Retirement Benefits

Partially resolved. Management continues to attempt to reduce the liabilities on the books for the retirement plans; however, recent fluctuations in the market have caused a significant increase in those liabilities.

08-04 Open Meetings and various other laws

They are currently holding Open Meetings and are awaiting current litigation to determine the application of other laws relating to public entities.

08-05 Louisiana Legislative Auditor Reports

The organization has reviewed the reports and are aware of the findings. The Organization has implemented additional compensating controls in order to correct the claims listed in the reports.

08-06 Former Executive Director

The organization has replaced the executive director and have amended internal controls accordingly. The proceedings are still pending.
