

# 2006

year of change  
year of progress

2006

ANNUAL REPORT

National Conference  
of Insurance Guaranty Funds **NCIGF**<sup>SM</sup>

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## [YEAR OF CHANGE]

Often the key to progress is the ability to adapt – to meet change head-on and turn it to tactical, strategic and measurable advantage.

2006 was an active and dynamic year at the National Conference of Insurance Guaranty Funds, a period of refocusing and thoughtful re-examination of our operations and strategy by the board of directors and staff, carried out with the goal of delivering maximum value and support to our members each and every day.

Smart change is strategically directed change; and that's just what has shaped the NCIGF operations through this active year.

The foundation of this change was a new business planning process and corporate structure that enable us to better focus on key business initiatives that are supported by a make-sense budget and human resources. These, taken together, move the NCIGF mission forward.

Also driving change was the NCIGF strategic planning initiative spearheaded by the Strategic Planning Committee (SPC) that got underway in earnest in 2006.

Created in January 2006 by the NCIGF Board of Directors at its Board & Planning meeting in Orlando, the initiative is an unprecedented effort to gather a wide range of input from our community and stakeholders about the guaranty fund system and the NCIGF.

The SPC effort is the most ambitious, comprehensive and in-depth self-assessment of the organization and guaranty fund system in its 35-year history. The process is enabling us to evaluate virtually all facets of the guaranty fund system.

Through it, we are also examining the NCIGF's role in the guaranty fund system with the objective of gauging how we perform on key fronts, and how we – and the system – can improve.

Perhaps the biggest change of all has been a hand-off of NCIGF leadership to Roger Schmelzer, who joined the NCIGF as president & CEO in June. Fresh from seven years as senior vice president of state and regulatory affairs at the National Association of Mutual Insurance Companies (NAMIC), Roger brought to the NCIGF a wide-ranging background in organization management, public policy, communications and regulatory services – a winning combination of professional perspective and fresh outlook.

Throughout 2006, Roger put in place corporate practices that are enabling the NCIGF to raise the bar in meeting key member needs, such as information technology support, communications and public policy oversight.

Change in 2006 also came with the departure of valued members of the NCIGF family, including Ed Wallis, who retired in May, and Kevin Harris, who left in December to start his own law practice. Additions to our staff also broadened our in-house capabilities and strengthened our organization.

If 2006 was a year of change, 2007 and beyond will be a period of improvement as we continue to set – and meet – ever-higher benchmarks in member support and services and ceaselessly work to deliver the value our members expect and deserve.

Join us in reviewing some of the highlights of an exciting year.

## [YEAR OF PROGRESS]

“Progress,” wrote author and philosopher Ralph Waldo Emerson, “is the activity of today and the assurance of tomorrow.”



Roger Schmelzer,  
President & CEO

The concept of assurance lies at the heart of the guaranty fund system – and all we do. For nearly 40 years, the system has delivered assurance – often transparently – to covered property and casualty policyholders whose insurer has failed: the assurance that claims will be paid.

But, as Emerson implied, ongoing assurance is possible only when there's a commitment to progress. At the NCIGF our “activity of today” drives progress that ensures the health and vitality of the guaranty fund system.

Today at the NCIGF we see progress on many fronts. We see it in our renewed emphasis on member services and the aggressive work our accounting issues committee has done to continually improve our financial reporting and internal controls.

We see progress in our newly launched communications effort and the vigorous work by our Public Policy Committee to inform policy debates, enabling the NCIGF to appropriately address issues that will directly impact the guaranty fund system in the years ahead.

We see it in our expanded IT member support, the work of our committees and the staff commitment that is re-establishing the NCIGF as “trusted experts” in issues, law and policy related to guaranty funds.

But nowhere is progress at the NCIGF and our embrace of change more evident than in the work now undertaken by the Strategic Planning Committee (SPC) to take an objective and honest look at the guaranty fund system and the NCIGF's role in it.

2007 will be the year that the SPC and its seven working groups will take the process to the next level by making recommendations that will prepare the guaranty fund system and the NCIGF to meet future challenges in a changing and ever more demanding property-casualty marketplace.

An important focus for us in 2006 was developing constructive and productive public policy relationships with receivers and our other “insolvency partners” through joint workshops with IAIR and re-establishment of the IAIR-NCIGF Guaranty Funds Liaison Committee.

In 2006, we added to our strong foundation in many critical areas, increasing our effectiveness. Today, the NCIGF is well on its way to achieving, and in some areas exceeding, many of the priority goals established in our new operational business plan.

Our progress enables us to better support our members in the all-important work of protecting policyholders.

But our progress would not have been possible without the support of many dedicated volunteer leaders. These professionals who give freely of their time and talents contribute immeasurably to the property and casualty guaranty fund system.

As we review and celebrate our 2006 accomplishments, let's renew our commitment to the assurance of tomorrow – progress for the guaranty fund system and the people it serves.

Roger H. Schmelzer  
President & CEO, National Conference of Insurance Guaranty Funds

## [THE VALUE OF MEMBERSHIP]

With NCIGF membership comes real and substantial value to member guaranty associations – not only in periods of heavy insolvency activity, but all the time.

First is the alliance with the national guaranty fund community, and all its resources, that NCIGF membership brings to guaranty associations.

NCIGF members also get the support and counsel of the NCIGF staff: leading experts in insolvency issues, law and policy and support disciplines, such as IT.

In 2007 and beyond, the organization will continue to extend its value by delivering programs and initiatives that assist members with practical, hands-on support in the areas of IT, UDS-related issues, seminars and meetings, among others.

Staff reorganization has broadened the NCIGF's organizational capabilities, increased our responsiveness and made us a better member resource.

This refocused support, we believe, is enabling us to help our members reach and sustain new levels of capability and capacity.

*It's all part of the value of NCIGF membership. ■*

## [THE BENEFITS OF NCIGF MEMBERSHIP INCLUDE]

**COMMUNICATIONS**

Through our extensive and growing communications program, the NCIGF is keeping guaranty associations, industry and trade associations up-to-date on important information about insolvency issues.

We take a strategic approach to communications, using effective tactics such as the NCIGF Web site, e-mail newsletters, media relations and other outreach to get the word out about the guaranty fund system and the good it brings to those we serve.

Twice a month we publish the *Insolvency Briefing*, an e-bulletin that provides updates on major developments. The *NCIGF Quarterly Commentary* offers in-depth analysis on insolvency-related issues each quarter. Each year, we publish for member guaranty funds our compilation of guaranty association law cases, white papers and other information.

2007 will be an exciting year on the communications front, with media outreach and other efforts that build awareness of the guaranty fund system among the public, media and policymakers.

**COORDINATING COMMITTEES**

The NCIGF organizes and staffs coordinating committees to assist in administering multi-state insolvencies that involve several guaranty funds. These committees provide critical assistance and support by monitoring developments and giving guaranty funds a voice in the proceedings.

These committees have produced significant amounts of early access distributions. Distributions in 2005 and 2006 alone topped out at more than \$750 million. Every dollar the committees have been able to collect reduces the assessments against member carriers and the costs to the consumers and taxpayers.

**FINANCIAL AND OPERATIONAL OVERSIGHT**

*Over the past year, the NCIGF has expanded and enhanced its operational and financial reporting infrastructure.*

Leading many of these improvements was James Lund, who joined the NCIGF in April. Under Jim's watch, the NCIGF began making improvements on the business and operational side, including the institution of new corporate practices to ensure solid internal controls. Those include the implementation of a formal travel policy, improved internal controls related to segregation of duties and development of financial reconciliations and formation of a project-focused budgeting process.

**PUBLIC POLICY MANAGEMENT**

NCIGF staff, under the direction of the Public Policy Committee, helps shape statutory and regulatory solutions related to guaranty funds.

Thanks in part to these efforts, provisions from the NCIGF Model Guaranty Association Act have been adopted in a growing number of states. Our model act represents the latest and best collective wisdom of the guaranty fund community concerning how to best protect those least able to absorb an uninsured loss, while at the same time placing reasonable limits on that protection.

The NCIGF does not "lobby." However, we are often directly involved as a "technical expert" in support of efforts to enact critical insolvency legislation.

In 2006, NCIGF staff was instructed by the Public Policy Committee to provide technical support of industry's efforts to negotiate changes to proposed insolvency law amendments in Utah. As a result, a generally positive result was reached in the state legislature. In fact, Utah became the seventh state to adopt favorable large deductible legislation as a part of its amendment package.

Also in 2006, NCIGF staff began to present model property-casualty guaranty fund language to the National Conference of Insurance Legislators (NCOIL). This is a critical step forward for the guaranty fund community, because it is America's elected state legislatures that establish the statutory direction that guaranty funds must follow. The NCIGF also developed and presented comments on the Insurer Receivership Model Act (IRMA) and accreditation to the NCOIL. The effort likely contributed to NCOIL's adoption of a resolution opposing IRMA accreditation.

NCIGF staff also has been involved in industry-led discussions in New York to craft needed guaranty fund act reform. Recently staff has helped develop a response to insolvency law change proposals in Pennsylvania and Delaware.

[CONTINUED]

**NCIGF, guaranty associations rise to Vesta challenges**

The Vesta Insurance Companies insolvency on August 1, 2006, brought significant challenges to the NCIGF and the 34 guaranty associations involved.

Complicating it was the fact guaranty associations received only a few weeks notice prior to liquidation; they were given just days to begin preparing the companies' records for processing.

The fact most claim files were imaged also challenged administrators. Although most guaranty funds were unable to access the imaged files for several weeks, representatives of the coordinating committee, the NCIGF, and the Texas Property & Casualty Insurance Guaranty Association working with the special deputy receiver's team were able to secure access to the necessary claim information. ■

## [THE BENEFITS OF NCIGF MEMBERSHIP]

### **Other critical public policy management member services include:**

**[Liaison to NAIC]** NCIGF membership gives our member associations a collective voice at the NAIC. Our staff has worked on the front lines in NAIC working group's four-year overhaul of the NAIC Model Liquidation Act and has been engaged in the continuing deliberations concerning the Property and Casualty Insurance Guaranty Association Model Act. NCIGF staff is present every step of the way to ensure guaranty fund issues are heard.

NCIGF staff's tireless efforts throughout 2006 have done much to support guaranty fund positions related to the NAIC's work on its model liquidation act and guaranty fund act legislation. Despite a challenging environment, NCIGF staff has helped drive positive results through coordination among key players, while maintaining good relationships with working group members and trade associations.

NCIGF involvement brings the guaranty fund voice to the NAIC. In 2006 NCIGF IT and legal staff made presentations on the importance of implementing security policies and procedures at the IAIR Roundtable and the NAIC's Receivership and Insolvency Task Force. As a result, the NAIC asked the NCIGF to coordinate efforts to spearhead development of recommended policy and procedures for liquidators.

NCIGF staff also is participating with the working group considering amendments to the NAIC Receivers Handbook.

**[Congressional Education Program]** In response to proposals for a federal guaranty fund system developed by certain groups in Washington, DC in 2001, the NCIGF, acting on instruction of its board of directors, began a program of educating and informing key members of Congress and their staffs about the functioning of the state-based guaranty association system and its record of success. Together with the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), we've participated in more than 65 briefings on Capitol Hill. As a result of these activities, the NCIGF has served as a technical resource to Congressional staff members on issues affecting guaranty associations.

**[Educational forums for the guaranty fund community]** NCIGF staff spearheads efforts each year to host a wide range of informative educational meetings. These meetings share a range of practical advice on everything from IT security and best practices that equips the guaranty fund community to work more effectively, efficiently and economically.

In 2006, 365 guaranty fund managers, staff, industry, trade professions and others attended NCIGF-hosted meetings, including our IT and claims seminars, annual meeting and November workshop.

### **DATA COMMUNICATION**

The NCIGF provides a valuable member service by serving as a clearinghouse of data transmissions between the liquidators and guaranty funds. The clearinghouse is a channel that transmits all loss claim and unearned premium data for multi-state insolvencies. We also provide premium data from the NAIC to members, report historical expense and assessment data on our Web site, and support specific studies of guaranty fund activities.

The NCIGF's commitment to seamless, consistent and secure data transmission plays a key role in the timely payment of claims.

### **DATA SECURITY**

NCIGF has developed a data security and privacy policy. We are also leading the efforts to build support for security-related policies that will be implemented by all organizations involved in the handling of insurer insolvencies. ■

## [ACCOMPLISHMENT 2006]

### **IT programs bring critical support to NCIGF members**

*For NCIGF members, 2006 was a year of solid support on the IT front. Highlights include:*

**[THE NCIGF IT CONFERENCE]** The first annual IT User Conference brought together more than 70 guaranty fund managers and staff to learn about the very latest developments in IT and best practices. Forums included Business Value of IT, Disaster Recovery Planning, Insolvency Systems, Security, UDS and Document Management. This year's conference, which will include receivers, is shaping up to be an even bigger success, with expanded topics that include e-Discovery, Records Retention and Microsoft Vista / Office 2007.

**[DATA SECURITY]** The NCIGF, working with the Automated Systems Committee, finalized a recommended Data Privacy and Security Policy. The policy enables guaranty funds and receivers to ensure confidentiality and security in the transmission of non-public personal information.

This accomplishment laid the groundwork for the NCIGF's creation of Information Security Procedures, a collection of processes that establish the administrative, technical and physical safeguards needed to protect sensitive (including non-public personal) information.

Work in 2006 also permitted the launch of a Secure FTP server in January 2007 as a preemptive step to securely transmit UDS data. The Secure FTP server now offers a secure channel for the download of data from receivers; in 2007 the server will allow the secure upload of data.

**[NCIGF MEMBER CLAIMS SYSTEM REVIEWS]** In 2006, the NCIGF reviewed the claims software systems of several member organizations and system providers. Going forward, this effort will deliver analysis and evaluation of system functionality to

our members that will help them assess the merits of systems against their individual needs and make informed buying decisions.

**[NCIGF MEMBER WEBSITE TEMPLATES]** In 2006, the NCIGF began offering to our members website hosting and templates. These cost-effective, easy-to-use templates enable members to build and maintain attractive Web sites without requiring IT expertise. Best of all, member Web site hosting and templates are free.

**[DOCUMENT IMAGING SYSTEMS REVIEW]** The Vesta insolvency emphasized the need for guaranty funds to be able to manage imaged documents. Addressing this need, the NCIGF began reviewing document imaging systems of several member organizations and system providers with a view toward helping our members select the kind of system that is right for them. A report, which will be distributed May 2007, will do just that.

**[MINIMUM SYSTEM RECOMMENDATIONS]** The NCIGF and the Automated Systems Committee in 2006 developed Minimum System Requirements (MSR). These guidelines, which were issued to guaranty fund managers in May, provide members with standards when purchasing office systems and software.

**[VENDOR SHARING PROGRAM]** A 2006 survey of NCIGF members revealed that approximately half of our members purchase equipment and supplies at retail cost. To help our members save money, the NCIGF launched the Vendor Sharing Program, which enables our members to leverage the cost advantages of volume buying. Already the program is saving NCIGF members 15-30 percent. ■

## [2006 HIGHLIGHTS]

New and continuing initiatives helped make 2006 a year of progress at the NCIGF. Highlights include:

### THE STRATEGIC PLANNING COMMITTEE INITIATIVE

Created in January 2006 by the NCIGF Board of Directors at its Board Planning meeting in Orlando, the Strategic Planning Committee initiative is set to deliver a comprehensive and objective assessment of the guaranty fund system.

As part of the initiative, a study—commissioned by the committee and performed by outside consultants Drs. Terri Vaughan and Robert Cooper—was undertaken in 2006 to identify and measure diverse opinions on the strengths and weaknesses of the guaranty fund system and the NCIGF.

Using personal interviews and surveys, Vaughan and Cooper worked closely with the SPC to gather information from a representative cross section of industry stakeholders, including receivers, regulators, guaranty fund managers and staff.

At the beginning of 2007, the SPC delivered Vaughn and Cooper's results and recommendations to the NCIGF board. Among the findings were seven key areas identified for improvement. The report also contained recommendations for next steps that the board approved.

Throughout 2007, the SPC, assisted by seven working groups made up of a cross-section of representatives from guaranty associations, industry and other key groups, will explore the issues and develop strategies to inform changes that will help the guaranty funds and the NCIGF work more efficiently and effectively.

### PUBLIC POLICY COMMITTEE

A key accomplishment in 2006 was the launch of the NCIGF Public Policy Committee. The charge of this group is to educate, energize and provide counsel to the property/casualty in-

**The SPC initiative has given the guaranty fund system an unprecedented opportunity to provide an even higher level of service and protection to property/casualty insurance consumers. This is the right process, at precisely the right moment in our history.**

Roger H. Schmelzer

urance industry and policymakers who are considering guaranty fund issues.

The committee also brings the expertise of NCIGF staff to discussions and debates related to guaranty fund policy, informing reforms of state guaranty fund and insolvency laws. In this way the Public Policy Committee plays a key role in protecting against erosion of the guaranty fund safety net.

The committee enables the NCIGF to take a more systematic, integrated and unified approach to guaranty fund and insolvency public policy-making, and shortens response time.

The Public Policy Committee allows the NCIGF to serve as a policy “watchdog,” a key part of educating, informing and shaping policy debates.

Through 2007 and beyond, the Public Policy Committee will bring an agile, well-grounded “issue management” approach to the insolvency arena, further positioning the NCIGF as “trusted expert” in property and casualty insolvencies and the guaranty fund system.

### COMMUNICATIONS

In June, the NCIGF adopted a communications program as part of our operational business plan: a first for the organization. In November, the NCIGF hired Nick Crews, a seasoned communications professional, to implement the plan.

Also in 2006, a staff communications summit helped expand and focus our communications plan. We also began laying the foundation of our program: developing a press kit, brochures, Web site “media room,” and other materials that will enable the NCIGF in 2007 and beyond to get the word out about guaranty funds and the good work our members do.

During the year, the NCIGF received mention and coverage in a range of publications. Among these were Best's Review, A.M. Best and Insurance Journal, which featured lengthy interviews with NCIGF president Roger Schmelzer. Roger and other NCIGF staff also addressed several groups over the year, including the State Insurance Trade Association (SITA) where Roger carried the guaranty fund message to 50 state trade executives.

In November, the NCIGF forged a new strategic alliance with the Insurance Information Institute (I.I.I.), a relationship that is improving our ability to reach key audiences through the trade and other media through I.I.I.'s extensive expertise, staff resources and database of industry information.

Throughout 2007, the NCIGF communications team will put a full-court press on showcasing the guaranty fund system as a proven, effective and efficient way to protect policyholders to the public, industry, trade and business media and policymakers. **[CONTINUED]**

## [ACCOMPLISHMENT 2006]

### Year of progress in early access distributions, large deductible legislation

In 2006 the property and casualty guaranty fund system saw a continuing trend toward sizable early access distributions.

Largely through the efforts of the NCIGF Reliance Communications committee led by Tom Jenkins, the liquidator of the Reliance Insurance Company submitted to the court a petition to approve an early access distribution of approximately \$200,000,000.

Other large estates, including Fremont Indemnity Co. Legion/Villanova Insurance, Home Insurance Company, Midland Insurance Company, PHICO and Reciprocal of America paid out collectively about \$459,000,000 in early access distributions in 2006.

In 2006 the receiver for the Fremont estate granted early access distributions that reimbursed guaranty associations for 100 percent of their loss payments.

Also during the year state legislators looked to the NCIGF Board Task Force Model as the basis for large deductible legislation nationwide. Currently six states have adopted laws embodying this approach. In addition, the New Jersey Workers' Compensation fund has amended its act to call for deductible assets to flow to the guaranty association. ■

[11]

[10]

## [2006 HIGHLIGHTS]

### NCIGF COMMITTEES

*Each of NCIGF's committees plays an integral part of the functioning of the NCIGF.*

#### Accounting Issues Committee

The Accounting Issues Committee monitors issues and advises the NCIGF membership on matters related to financial reporting. These activities include AICPA and NAIC compliance, providing relevant information to the property and casualty industry, and assisting in the development and implementation of UDS Financial Reporting formats.

#### Audit Committee

The Audit Committee oversees routine financial reporting and the annual audit of the NCIGF.

#### Automated Systems Committee

The Automated Systems Committee develops and implements the architecture of electronic communication for our community. It assists with disaster-recovery programs, UDS Claims and Financial Reporting formats, and develops electronic communication and system procedures for the guaranty fund network.

#### Budget Committee

The Budget Committee provides consultation and guidance on budgetary issues.

#### By-laws Committee

The By-laws Committee makes informed recommendations for changes to the NCIGF by-laws for consideration by the board of directors.

#### Coordinating Committee

The Coordinating Committee manages the coordination and facilitation for multi-state insolvencies. The work of the Coordinating Committee is key to the mission of the NCIGF and the ability to bring equitable resolution to insolvency issues.

#### Education Committee

The Education Committee develops educational programs and model training curricula for the NCIGF membership.

#### Legal Committee

The Legal Committee monitors developing legal issues, provides counsel, fulfills requests for amicus briefs, prepares analysis of insolvency legislation, and conducts the NCIGF Legal Seminar, among other responsibilities.

#### Nominating Committee

The Nominating Committee nominates candidates for election to the NCIGF Board of Directors. It also makes nominations for the membership on the NCIGF board's Executive Committee.

#### Operations Committee

The Operations Committee works to develop recommendations intended to increase the efficiency, uniformity and operational effectiveness of the member guaranty associations.

#### Public Policy Committee

The Public Policy Committee is charged with educating and informing the property/casualty insurance industry about issues related to state guaranty fund policy and laws.

#### Rapid Response Team

The Rapid Response Team provides direction to NCIGF staff on public policy matters in situations where issues are time sensitive and cannot be dealt with at the regularly scheduled meetings of the Public Policy Committee.

#### Strategic Planning Committee

The Strategic Planning Committee was formed to gain a better understanding of issues that have challenged the guaranty fund system as the result of recent significant commercial-lines insolvencies. ■

# GS&CO Greenwalt Sponsel & Co., Inc.

Business & Financial Advisors

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
National Conference of Insurance Guaranty Funds:

We have audited the accompanying statements of financial position of the National Conference of Insurance Guaranty Funds (a not-for-profit corporation) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Conference of Insurance Guaranty Funds as of December 31, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

*Greenwalt Sponsel & Co., Inc.*

January 31, 2007

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**NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS**

*Statements of Financial Position*

*December 31, 2006 and 2005*

<b>ASSETS</b>		
	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>		
Cash	\$ 674,303	\$ 534,414
Accounts receivable, net of allowance for doubtful accounts of \$11,000 for 2006	84,973	55,122
Prepayments	25,443	2,966
<i>Total current assets</i>	784,719	592,502
<b>Property and Equipment, Net</b>	55,329	51,248
<b>Other Assets</b>		
Deposits	10,000	5,000
<i>Total assets</i>	<u>\$ 850,048</u>	<u>\$ 648,750</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 56,002	\$ 81,470
Accrued expenses	82,085	277,828
Accrued federal taxes	44,714	51,991
Deferred compensation expense - current portion	15,965	11,254
<i>Total current liabilities</i>	198,766	422,543
<b>Long-Term Liabilities</b>		
Deferred compensation expense	52,557	49,261
<i>Total liabilities</i>	251,323	471,804
<b>Commitments (Notes 5 and 7)</b>		
<b>Net Assets</b>		
Undesignated	106,641	76,946
Board designated	492,084	100,000
<i>Total unrestricted net assets</i>	598,725	176,946
<i>Total liabilities and net assets</i>	<u>\$ 850,048</u>	<u>\$ 648,750</u>

See accompanying notes to financial statements.

**NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS**

*Statements of Activities*

*For the Years Ended December 31, 2006 and 2005*

	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
Membership dues	\$ 2,832,925	\$ 2,331,195
Investment income	59,080	35,586
Other income	108,669	103,950
<i>Total revenue</i>	<u>3,000,674</u>	<u>2,470,731</u>
<b>Expenses</b>		
Personnel wages	1,034,340	1,383,343
Personnel benefits	246,516	302,952
Personnel taxes	78,938	69,608
Professional fees	549,114	300,422
Travel and training	355,390	301,871
Board task force	-	7,372
Dues and subscriptions	35,650	32,885
Insurance	13,389	9,077
Rent expense	113,139	130,648
Bad debt expense	11,017	-
Office operations	29,020	38,925
Telephone and conference calls	44,651	51,664
Depreciation	18,696	24,639
Loss on disposal of fixed assets	3,281	-
Software	2,117	8,197
<i>Total expenses</i>	<u>2,535,258</u>	<u>2,661,603</u>
<b>Change in Net Assets before Federal Taxes</b>	465,416	(190,872)
<b>Federal Taxes</b>	43,637	51,873
<b>Change in Net Assets</b>	421,779	(242,745)
<b>Net Assets, Beginning of Year</b>	176,946	419,691
<b>Net Assets, End of Year</b>	<u>\$ 598,725</u>	<u>\$ 176,946</u>

See accompanying notes to financial statements.

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS

Statements of Cash Flows

For the Years Ended December 31, 2006 and 2005

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**INCREASE IN CASH**

	<u>2006</u>	<u>2005</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from membership dues	\$ 2,803,074	\$ 2,347,388
Cash paid to suppliers and employees	(2,753,962)	(2,283,657)
Investment income	59,080	35,586
Other income	108,669	103,950
Federal taxes paid	<u>(50,914)</u>	<u>(32,525)</u>
<i>Net cash provided by operating activities</i>	<u>165,947</u>	<u>170,742</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds on sale of fixed assets	200	-
Capital expenditures	<u>(26,258)</u>	<u>(19,910)</u>
<i>Net cash used in investing activities</i>	<u>(26,058)</u>	<u>(19,910)</u>
<b>Net Increase in Cash</b>	139,889	150,832
<b>Cash, Beginning of Year</b>	<u>534,414</u>	<u>383,582</u>
<b>Cash, End of Year</b>	<u>\$ 674,303</u>	<u>\$ 534,414</u>

NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS

Statements of Cash Flows, Continued

For the Years Ended December 31, 2006 and 2005

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**RECONCILIATION OF CHANGE IN NET ASSETS TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

	<u>2006</u>	<u>2005</u>
<b>Change in Net Assets</b>	\$ 421,779	\$ (242,745)
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities</b>		
Depreciation expense	18,696	24,639
Loss on disposal of fixed assets	3,281	-
<i>(Increase) decrease in operating assets:</i>		
Accounts receivable	(29,851)	16,193
Prepayments	(22,477)	-
Deposit	(5,000)	(5,000)
<i>Increase (decrease) in operating liabilities:</i>		
Accounts payable	(25,468)	44,853
Accrued expenses	(195,743)	252,939
Accrued federal taxes	(7,277)	19,348
Deferred compensation expense	<u>8,007</u>	<u>60,515</u>
<i>Total adjustments</i>	<u>(255,832)</u>	<u>413,487</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 165,947</u>	<u>\$ 170,742</u>

See accompanying notes to financial statements.

See accompanying notes to financial statements.

**NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS**

Notes to Financial Statements  
December 31, 2006 and 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Purpose*

The National Conference of Insurance Guaranty Funds (the Organization) provides national assistance in various areas for property and casualty insurance guaranty funds. The Organization assists in the coordination between the liquidators and property and casualty insurance guaranty funds in multi-state insolvencies, monitors litigation and legislation affecting insurance guaranty funds, conducts various educational and training programs, provides various information concerning the property and casualty insurance guaranty fund system, and provides a forum for discussion of insurance guaranty fund related issues.

*Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Membership Dues*

Membership dues are recorded as revenue in the applicable membership year. Dues are assessed one time each year to fund budgeted operating expenses and are based on a formula which considers a minimum annual fee plus a proportionate allocation up to a specified maximum.

*Accounts Receivable*

Accounts receivable include amounts due from members and others for amounts the Organization has already paid on their behalf. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected.

*Property and Equipment*

Property and equipment is stated on the basis of cost, net of accumulated depreciation. Depreciation is computed using the straight-line method based on estimated useful lives. The Organization capitalizes purchases of fixed assets in excess of \$500, with the exception of software, which is expensed.

*Tax Status*

The Organization has been granted an exemption from income taxes as permitted by Section 501(c)(6) of the Internal Revenue Code. However, Section 6033(e) of the Internal Revenue Code defines lobbying in a manner that includes some of the activities performed by the Organization. As a result, under the same section, the Organization is required to either report the total amount of expenses related to such activities to its members as nondeductible for federal income tax purposes or pay a proxy income tax. The Organization has elected to pay a proxy income tax. The proxy tax liability was \$44,714 and \$51,991 for December 31, 2006 and 2005, respectively.

*Net Assets*

The financial statements have been prepared in accordance with Statements of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 requires that the financial statements report the changes in and total of each of the net asset classes, based upon donor restrictions. Net assets are classified as unrestricted, temporarily restricted, and permanently restricted.

**NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS**

Notes to Financial Statements  
December 31, 2006 and 2005

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

*Net Assets, Continued*

Unrestricted net assets include revenue and expenses from the regular operations of the Organization, which are at the discretion of management and the Board of Directors. As of December 31, 2006 and 2005 the Board of Directors had designated \$492,084 and \$100,000, respectively, as a contingency reserve. The Organization has no temporarily or permanently restricted net assets.

**2. UNINSURED CASH**

The Organization maintains cash balances at a commercial bank. Accounts at the bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Organization maintained cash in excess of the FDIC coverage limits at December 31, 2006.

**3. PROPERTY AND EQUIPMENT**

Property and equipment at December 31, consisted of the following:

	<u>2006</u>	<u>2005</u>
Furniture	\$ 66,150	\$ 54,527
Equipment	134,331	125,961
	<u>200,481</u>	<u>180,488</u>
Accumulated depreciation	(145,152)	(129,240)
	<u>\$ 55,329</u>	<u>\$ 51,248</u>

**4. DEFERRED COMPENSATION**

During 2005, the Organization entered into an agreement with a key employee upon his resignation. The agreement provides for the employee's health insurance premiums until age 65, and the present value of these future payments has been recorded as a liability.

Additionally, the Organization expensed and recorded a liability for a one-time severance payment included in accrued liabilities at December 31, 2005. The liability was funded and paid with the 2006 Membership Dues.

**5. LEASE COMMITMENTS**

The Organization has various operating leases for office space and equipment. Rent expense was \$113,139 and \$130,648 for the years ended December 31, 2006 and 2005. Future minimum lease payments are as follows for the years ending December 31:

2007	\$ 139,053
2008	138,892
2009	132,000
2010	122,671
2011	109,670
2012 and thereafter	<u>129,556</u>
	<u>\$ 771,842</u>

## NATIONAL CONFERENCE OF INSURANCE GUARANTY FUNDS

Notes to Financial Statements  
December 31, 2006 and 2005

### 6. RETIREMENT PLANS

The Organization participates in the Pension Plan for Insurance Organizations and the Insurance Company Supported Organizations 401(k) Savings Plan formerly named the Benefits Connection Group Employers' Pension Plan and 401(k) Savings Plan, respectively. The multi-employer defined pension plan and the single employer savings plan covers all employees of the Organization. The savings plan provides matching contributions by the employer equal to 75% of the first 6% contributed by the employee. Contributions to the defined benefit pension plan were \$101,734 and \$83,916 in 2006 and 2005, respectively. Matching contributions to the 401(k) savings plan amounted to \$29,058 and \$49,233 in 2006 and 2005, respectively.

### 7. COMMITMENT

The Organization entered into contracts with various hotels for future educational and organizational meetings. The contracts typically require minimum room occupancy levels and could result in a liability to the Organization if the agreed level is not attained.

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South Carolina Property &  
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Executive Director,  
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Insurance Guaranty  
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State Farm Insurance  
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Casualty Insurance  
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Compensation Insurance  
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<b>Randy Blumer</b> Executive Director, Wisconsin Insurance Security Fund	<b>David C. Edwards</b> President, Western Guaranty Fund Services	<b>DeLene Loughran</b> Florida Insurance Guaranty Association	<b>Joseph Tanski</b> MA Legal Counsel, Nixon Peabody LLP
<b>Jessie Bowie</b> Claims Director, Texas Property & Casualty Insurance Guaranty Association	<b>Kent Forney</b> General Counsel, Iowa Insurance Guaranty Association	<b>Michael C. Marchman</b> Executive Director, Georgia Insurers Insolvency Pool	<b>Howard VanDine III</b> SC Legal Counsel, Nelson Mullins Riley
<b>Judy Bowron</b> Executive Director, Minnesota Insurance Guaranty Association	<b>Frank A. Gartland</b> President, Ohio/West Virginia Guaranty Funds	<b>Lawrence Mulryan</b> Executive Director, California Insurance Guaranty Association	<b>A. Scott Webster</b> Executive Director, Kentucky Insurance Guaranty Association
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<b>W.D. “David” Broemel</b> Executive Secretary, Tennessee Insurance Guaranty Association	<b>Jack Hagan</b> Claims Manager, New York State Insurance Department Liquidation Bureau	<b>Bill Norton</b> TN Legal Counsel, Boult, Cummings, Connors & Berry	<b>Desiree Worsley</b> Assistant Executive Director of Operations & Logistics, Louisiana Insurance Guaranty Association
<b>C. Guerry Collins</b> Lord, Bissell & Brook	<b>J. Smith “Smitty” Harrison</b> Executive Director/Secretary, South Carolina Property & Casualty Insurance Guaranty Association	<b>Noreen Parrett</b> WI Legal Counsel, Parrett & O’Connell	
<b>Lori Connors</b> Claims Manager, New Jersey Property- Liability Insurance Guaranty Association	<b>Thomas W. Jenkins</b> Partner, Lord, Bissell & Brook	<b>Stephen F. Perrone</b> Executive Director, Pennsylvania Property & Casualty Insurance Guaranty Association	
<b>Joseph L. DellaFera</b> Chief Executive Officer, New Jersey Property- Liability Insurance Guaranty Association	<b>David Johnson</b> Administrator, Oregon Insurance Guaranty Association	<b>Joseph R. Petr</b> Executive Vice President, Maryland Property & Casualty Insurance Guaranty Corporation	

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	<b>John J. Falkenbach</b> Executive Director, Delaware Insurance Guaranty Association	<b>Paul M. Gulko</b> President, Guaranty Fund Management Services	

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Fund Group

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Georgia Insurers  
Insolvency Pool

**Steve A. Uhrynawycz**  
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President & CEO  
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**Suzanne Sahakian**  
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**John Stuckmeyer**  
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Companies

**Joseph C. Tanski**  
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Partner,  
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**Ray Bauso**  
Claims Supervisor,  
Pennsylvania Property  
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