

Financial Statements – Modified Cash Basis
and Other Financial Information



Florida Insurance Guaranty Association, Inc.

*Years ended December 31, 2010 and 2009
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

Florida Insurance Guaranty Association, Inc.

Financial Statements – Modified Cash Basis
and Other Financial Information

Years ended December 31, 2010 and 2009

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Report of Independent Auditors

The Board of Directors
Florida Insurance Guaranty Association, Inc.

We have audited the accompanying statements of financial position - modified cash basis of the Florida Insurance Guaranty Association, Inc. (the Association) as of December 31, 2010 and 2009, and the related statements of activities and changes in net assets - modified cash basis 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 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.

As described in Note 1 to the financial statements, these financial statements are prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accounting practices used by the Association vary from accounting principles generally accepted in the United States of America, and the Association has not determined the effect of those variances. The variances include omission of assessments receivable and accruals for loss and loss adjustment expense reserves of insolvent insurance companies assumed by the Association. Accordingly, we were not engaged to audit, and we did not audit, the effects of those variances. Since the accompanying financial statements do not purport to be a presentation in conformity with accounting principles generally accepted in the United States of America, we are not in a position to express, and we do not express, an opinion on the financial statements referred to above as to fair presentation of financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Association as of December 31, 2010 and 2009, and its revenue collected and expenses paid for the years then ended on the basis of accounting described in Note 1.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Thomas Howell Ferguson P.A.

March 2, 2011

Florida Insurance Guaranty Association, Inc.

Statements of Financial Position
- Modified Cash Basis

	December 31,	
	2010	2009
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 211,998,971	\$ 244,769,350
Other assets	-	357
Property and equipment, net	1,291,777	1,397,389
Total assets	<u>\$ 213,290,748</u>	<u>\$ 246,167,096</u>
 Liabilities and net assets		
Net assets:		
Temporarily restricted:		
Automobile liability and physical damage	118,557,135	123,827,675
Other covered lines	94,733,613	122,339,421
Total net assets	<u>213,290,748</u>	<u>246,167,096</u>
 Total liabilities and net assets	<u>\$ 213,290,748</u>	<u>\$ 246,167,096</u>

See accompanying notes.

Florida Insurance Guaranty Association, Inc.

Statement of Activities and Changes in Net Assets
- Modified Cash Basis

Year ended December 31, 2010

	Temporarily Restricted			
	Automobile Liability and Physical Damage	Other Covered Lines	Total	
Revenues:				
Assessments	\$ -	\$ 2,041,252	\$ 2,041,252	\$ 2,041,252
Investment income, net of related expenses	241,250	233,809	475,059	475,059
Estate distributions and claim recoveries	6,425,191	62,155,048	68,580,239	68,580,239
	6,666,441	64,430,109	71,096,550	71,096,550
Expenses:				
Claims and claims adjustment expenses paid	11,584,682	89,097,253	100,681,935	100,681,935
Direct estate expenses	8,934	48,879	57,813	57,813
General and administrative	343,365	2,889,785	3,233,150	3,233,150
	11,936,981	92,035,917	103,972,898	103,972,898
Change in net assets	(5,270,540)	(27,605,808)	(32,876,348)	(32,876,348)
Temporarily restricted net assets at beginning of year	123,827,675	122,339,421	246,167,096	246,167,096
Temporarily restricted net assets at end of year	<u>\$ 118,557,135</u>	<u>\$ 94,733,613</u>	<u>\$ 213,290,748</u>	<u>\$ 213,290,748</u>

See accompanying notes.

Florida Insurance Guaranty Association, Inc.

Statement of Activities and Changes in Net Assets
- Modified Cash Basis

Year ended December 31, 2009

	Temporarily Restricted			
	Automobile Liability and Physical Damage	Other Covered Lines	Total	
Revenues:				
Assessments	\$ -	\$ 126,150,044	\$ 126,150,044	
Other revenue	47	10	57	
Investment income, net of related expenses	360,058	326,853	686,911	
Estate distributions and claim recoveries	13,371,393	42,077,045	55,448,438	
	<u>13,731,498</u>	<u>168,553,952</u>	<u>182,285,450</u>	
Expenses:				
Claims and claims adjustment expenses paid	1,955,624	145,034,377	146,990,001	
Direct estate expenses	17,109	62,662	79,771	
General and administrative	380,884	2,607,745	2,988,629	
	<u>2,353,617</u>	<u>147,704,784</u>	<u>150,058,401</u>	
Change in net assets	11,377,881	20,849,168	32,227,049	
Temporarily restricted net assets at beginning of year	112,449,794	101,490,253	213,940,047	
Temporarily restricted net assets at end of year	<u>\$ 123,827,675</u>	<u>\$ 122,339,421</u>	<u>\$ 246,167,096</u>	

See accompanying notes.

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

Years ended December 31, 2010 and 2009

1. Organization and Significant Accounting Policies

The Florida Insurance Guaranty Association, Inc. (the Association), a not-for-profit corporation, was established by the Florida Legislature through the Florida Insurance Guaranty Act of 1970 (the Act). The Association was created to provide a mechanism for the payment of covered claims of insolvent insurers and to assist in the detection and prevention of insurer insolvencies. The Association operates under the supervision and approval of a board of directors, comprised of not less than five and no more than nine persons, recommended by member insurers pursuant to Chapter 631.56, Florida Statutes, and subsequently appointed by the Florida Department of Financial Services.

The members of the Association are all insurers that provide property and casualty coverages in the state of Florida.

The funding of the Association's activities is provided by distributions from the estates of insolvent insurers and assessments of members. The assessments are calculated and, as considered necessary, levied against member insurers on the basis of net direct written premiums in the state of Florida in the classes protected by the Act. The Association obtains the amount of the net direct written premiums, by company and by class of protection, which is used as the basis for assessment calculations. The maximum regular assessment rate is 2%. In addition to the regular assessment, during 2006, the Florida Legislature granted the Association the authority to levy an emergency assessment up to an additional 2% of net direct written premiums for the account specified in Section 631.55(2)(b). Also in 2006, the Association was granted the authority to work with an affected municipality, county, or financing conduit organization under Chapter 163, Florida Statutes, to issue tax-exempt bonds should the funding need arise for the account specified in Section 631.55(2)(b). As of December 31, 2010, the Association has not issued any tax-exempt bonds.

On October 30, 2009, a regular assessment of 0.8% was levied for the "all other" line of business due and payable on or before December 15, 2009. No assessments were levied in 2010. However, assessments were collected during 2010 relating to the October 2009 regular assessment.

The accounting policies and methods of their application that significantly affect the assets and liabilities arising from cash transactions and changes in the modified cash basis net assets of the Association are as follows:

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

1. Organization and Significant Accounting Policies (continued)

Basis of Accounting

The financial statements of the Association are prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis of presentation differs from accounting principles generally accepted in the United States of America (GAAP) in that certain revenues are recognized when received rather than earned and certain expenses are recognized when paid rather than when the obligation is incurred. Specifically, the variances from GAAP include omission of assessments receivable and accruals for loss and loss adjustment expense reserves of insolvent insurance companies assumed by the Association. Such variances are presumed to be material. However, similar to financial statements prepared in accordance with GAAP, these financial statements reflect the capitalized cost of property and equipment and related depreciation, accrued interest income, and amounts held by the Association for others in a fiduciary capacity. The accompanying financial statements are not intended to present the financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with financial institutions and deposits in highly liquid money market funds with maturities of three months or less. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. Bank deposits at times may exceed federally insured limits. The Association has not experienced any losses in such accounts.

Concentration of Credit Risk

The financial instruments exposed to concentrations of credit risk consist primarily of its cash, cash equivalents, and assessment revenue.

All investment transactions have credit exposure to the extent that a counterparty may default on an obligation of the Association. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Association focuses primarily on highly liquid cash equivalent investments, limits its exposure in any one investment, and monitors quality.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over an estimated useful life of three to 39 years. The Association's policy is to capitalize asset acquisitions greater than \$1,000.

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

1. Organization and Significant Accounting Policies (continued)

Net Assets

The Association's modified cash basis net assets represent funds held from assessments, and other sources to pay covered property and casualty claims of insolvent insurers and administrative costs as they come due. Net assets are temporarily restricted and are segregated into two classifications specified under the Act: automobile liability and automobile physical damage and other covered lines.

Income Taxes

The Association is exempt from federal income taxes under Section 501 of the Internal Revenue Code as a 501(c)(6) organization.

Assessments

Assessments are recorded at the time they are received by the Association.

Interest Income

The Association allocates interest income earned from investments to the individual net asset classification based on the ratio of each classification's average monthly balance to the average monthly balance for all classifications. Interest income is recorded in the period earned.

Estate Distributions and Claim Recoveries

Amounts received by the Association for estate distributions and claim recoveries are recognized in the period received. Estate distributions and claim recoveries include reinsurance recoveries by the Receiver, Florida Hurricane Catastrophe Fund reimbursements, direct claim recoveries, and any other distributions of estate assets.

Claims and Claims Adjustment Expenses Paid

Claims and claims adjustment expenses paid consist of the net amounts paid on claims of insolvent insurers.

Direct Estate Expenses

Direct estate expenses are expenses paid by the Association related directly to the protection of the Association's interest in the administration of specific insolvent insurers' estates.

General and Administrative Expenses

The Association records general and administrative expenses when paid. General and administrative expenses are allocated monthly based on a formula that incorporates the amounts paid for claims and claims handling as well as the changes in outstanding reserves for each estate by line of business in their proportion to the total activity for that month.

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

The Association has evaluated subsequent events through March 2, 2011, the date the financial statements were available to be issued. During the period from December 31, 2010 to March 2, 2011, the Association did not have any material recognizable subsequent events.

Use of Estimates

The preparation of financial statements in conformity with the modified basis of cash receipts and disbursements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2010	2009
Land	\$ 310,000	\$ 310,000
Building	883,463	883,463
Office furniture and equipment	39,751	40,120
Computer equipment and software	859,374	939,742
Leasehold improvements	56,102	56,102
	<u>2,148,690</u>	<u>2,229,427</u>
Less accumulated depreciation	856,913	832,038
	<u>\$ 1,291,777</u>	<u>\$ 1,397,389</u>

During the years ended December 31, 2010 and 2009, the Association recorded depreciation expense of \$119,106 and \$166,352, respectively.

The Association and Florida Workers' Compensation Insurance Guaranty Association, Inc. (FWCIGA) are the owners of real property together with certain tangible property. The Association owns an undivided 50% interest in the property which is reported above as land and building.

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

3. Management Services Agreement

Effective January 1, 2008, the Association and FWCIGA entered into agreements with American Guaranty Fund Group, Inc. (AGFG) to provide management and administrative services. Under the terms of the agreement, AGFG provides management and administrative services, including but not limited to general management responsibility, finance and accounting, overseeing and managing the Association's claims division, managing and supervising the day-to-day activities of the Association, and other management or administrative services. The Association and FWCIGA reimburse AGFG for all amounts paid by AGFG. Costs incurred by AGFG that are directly attributable to a specific entity are charged to the applicable entity. All other costs incurred by AGFG are distributed equitably to the Association and FWCIGA based on various allocation methods. The Association's contract may be terminated with 30 days written notice by either party, with or without cause. The Association and FWCIGA each pay AGFG in advance of each calendar year an amount equal to the two month average budget for that entity projected for the upcoming calendar year. The operating advance paid to AGFG was \$480,571 and \$472,841 at December 31, 2010 and 2009, respectively.

Amounts paid to AGFG under this agreement totaled \$4,203,131 and \$3,490,267 for the years ended December 31, 2010 and 2009, respectively, and are reported in general and administrative expenses, claim handling expenses, and direct estate expenses.

4. Commitments and Contingencies

As more fully described in Note 1, the Association has assumed the outstanding claims and claims adjustment expense liabilities of insolvent property and casualty insurers in the state of Florida. The case-basis claims and claim adjustment expense reserves for known insolvent insurers at December 31, 2010 and 2009, are approximately \$119,700,000 and \$98,500,000, respectively. An actuarial determination of the ultimate value of the outstanding claim liabilities has not been made. In addition to the Association's obligation to pay the outstanding claims and claims adjustment expenses of insolvent insurers, the Association is also obligated to pay the unearned premium liabilities of insolvent insurers. There is no known outstanding unearned premium obligation of insolvent insurers at December 31, 2010 and 2009.

The Association receives early access distributions from the receivers of insolvent insurers. Some of these distributions have been received pursuant to agreements that provide that in the event the distributions exceed the Association's final pro rata distribution from the insolvencies, the Association will return any excess to the Receiver.

The Association is involved in various legal actions in its capacity as the provider of funds for the settlement of covered claims and return of unearned premiums under certain insurance policies of insolvent companies. The costs of such legal actions to the Association are recorded as claims and claims handling expenses when paid.

Florida Insurance Guaranty Association, Inc.

Notes to Financial Statements – Modified Cash Basis

4. Commitments and Contingencies (continued)

The Association has filed contingent proofs of claims with the Florida Department of Financial Services, Division of Rehabilitation and Liquidation and with out-of-state receivers to protect its right of recovery from the various insolvent companies for claims and expenses paid. General and administrative expenses are a priority claim with the receivers in most states.

The Association and FWCIGA entered into an agreement dated December 15, 1999, whereby the Association would remit to FWCIGA 70% of the outstanding workers compensation claims expenses currently filed with the various receivers on specific pre-December 31, 1997 insolvencies. Under this agreement, the Association paid FWCIGA \$6,794,909 in 1999. FWCIGA is obligated to remit back to the Association any additional payments received directly from an estate as early access or final distribution on the expense portion of the pre-December 31, 1997 insolvencies. The original agreement was amended on August 24, 2006. The amendment called for FWCIGA to reimburse the Association for the entire balance due under the original agreement at that time subject to a final reconciliation effective December 31, 2009. As a result of the final reconciliation, the Association remitted \$1,221,438 to FWCIGA during 2010 as final settlement of the agreement, which is included in estate distributions and claims recoveries. No amounts were remitted during 2009.

During the ordinary course of business, the Association is involved in various litigation. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that any resulting unfavorable outcomes would have minimal adverse economic impact on the Association.

5. Retirement Plan

The Association employees have the option of participating in the American Guaranty Fund Group, Inc. 401(k) Profit Sharing Plan (the Plan). The Plan is available to employees meeting certain entry requirements. The Association makes discretionary employer contributions to the Plan on a matching basis. Employer contributions paid for the years ended December 31, 2010 and 2009, were \$120,079 and \$137,847, respectively.

6. Temporarily Restricted Net Assets

The Association classifies all net assets as temporarily restricted. Net assets are considered restricted by Florida Statutes until expended for Association operations and payment of claims.

Other Financial Information

Florida Insurance Guaranty Association, Inc.

Schedule of General and Administrative Expenses

	Years ended December 31,	
	2010	2009
Accounting and auditing	\$ 50,772	\$ 69,256
Bank fees	39,983	25,777
Consulting	39,440	17,952
Depreciation	119,106	166,352
Dues and publications	114,685	109,152
Furniture and equipment	164,097	159,366
Insurance	55,891	62,229
Legal fees	118,639	128,405
Miscellaneous	(114)	6,214
Office supplies and printing	18,005	17,015
Change in operating advance	7,730	(177,159)
Postage and shipping	18,361	11,129
Premises	33,944	40,192
Salaries and benefits	2,335,851	2,229,663
Taxes and licenses	31,200	35,311
Telephone	43,988	42,294
Travel and meals	41,572	45,481
	<u>\$ 3,233,150</u>	<u>\$ 2,988,629</u>

See report of independent auditors.