

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

of the

WASHINGTON INSURANCE GUARANTY ASSOCIATION

DECEMBER 31, 2004

Order No. G06-58
Washington Insurance Guaranty Association
Exhibit A

SALUTATION

Seattle, Washington
October 16, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.32.120, an examination was made of the corporate affairs and financial records of

Washington Insurance Guaranty
Association
of
Washington State

hereinafter referred to as "WIGA" or "the Association", at the office of its administrative service contractor, Western Guaranty Fund Services (WGFS) located at 1720 South Bellaire Street, Suite 408, Denver, Colorado 80222-4320. This report of examination is respectfully submitted showing the condition of the Association as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Washington Insurance Guaranty Association. This report shows the financial condition and related corporate matters as of December 31, 2004.



Patrick H. McNaughton
Chief Examiner

10-16-06

Date

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SCOPE OF EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004 and comprises a comprehensive review of the books and records of the Association. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. The findings of the previous examination report were reviewed and all items had been satisfactorily addressed by the Association.

Corporate records, external reference materials, and various aspects of the Association's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Association's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

COMMENTS AND RECOMMENDATIONS

The examiners reviewed the Company's audited 2004 financial statements. This review was performed to determine if the Association complied with its Plan of Operation and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48.32 RCW.

The following summarizes the comments and recommendations noted while performing this review.

1. Custodial Agreement

WIGA does not have an agreement with its investment custodian.

It is recommended that WIGA negotiate a custodial and advisory agreement with its investment custodian and ensure that it contains all of the required provisions as recommended by the NAIC's Financial Condition Examiners Handbook (FCEH).

2. Reconciliations

WGFS does not have written reconciliations for the Association's bonds and investment income.

It is recommended that WIGA require its administrative service contractor to maintain written reconciliations of bonds and investment income.

3. Annual Report

Per RCW 48.32.120, the BOD shall submit, not later than March 30th of each year, a financial report for the preceding calendar year in a form approved by the commissioner. WGFS sends a copy of the Annual Report to the OIC, but this is not documented as received by the OIC.

In order to prove compliance with RCW 48.32.120, it would be advisable to request a delivery confirmation when an Annual Report is sent to the OIC.

4. Balance Sheet

WGFS does not prepare a balance sheet for the Association. Since a balance sheet is one of the basic financial statements for any organization and is the only one to present the financial position, it would be beneficial to prepare one at least annually.

The OIC recommends that WGFS create a balance sheet for the Association in order to give a more complete picture of the Association's financial status.

COMPANY PROFILE

Company History

The Washington Insurance Guaranty Association, hereinafter referred to as the "Association", was established pursuant to Chapter 265 of the laws of the 1971 Washington State Legislature under Chapter 48.32 RCW of the Washington Insurance Code, entitled Washington Insurance Guaranty Association Act.

The purpose of that Act and the function of the Association is to provide a mechanism for payment of covered claims so as to avoid excessive delay or financial loss to claimants or policyholders because of insurer insolvency. WIGA also is responsible to assess the cost of protection among insurers and to aid in the detection and prevention of insurer insolvencies.

The Act provides that the Association shall be a non-profit, unincorporated legal entity and that all persons who write covered insurance and hold a Certificate of Authority to transact insurance in the state of Washington are to be members.

MANAGEMENT AND CONTROL

Financial administration of the Association is performed by Western Guaranty Fund Services (WGFS) of Denver, Colorado. WGFS is a non-profit organization contracted to

perform all administrative services for six state guarantee associations; Colorado, Idaho, Montana, Wyoming, Kansas and Washington.

The Association's overall administration is controlled by a Board of Directors.

Plan of Operation

RCW 48.32.070(1) requires the Association to submit to the Commissioner a plan of operation to assure the fair, reasonable, and equitable administration of the Association.

The plan of operation was adopted October 27, 1995 and amended April 8, 2004.

Board of Directors

RCW 48.32.050(1) provides that the Board of Directors (BOD) consists of not less than five nor more than nine persons serving terms as established in the plan of operation. The insurer members of the BOD are selected by member insurers, subject to the approval of the commissioner.

The plan of operation requires an annual meeting of the BOD and member insurers on the first Wednesday in March.

As of December 31, 2004, the BOD was composed of eight members:

Name	Member Company
Beverly Reid – Chairman	State Farm Insurance
Maggie Haines – Vice Chairperson	Liberty Mutual Group
Steve Miller	PEMCO Insurance Companies
Frank McConnell	SAFECO Insurance Company of America
Steve Richards	Western National Assurance Company
Wayne Fellows	Fireman's Fund McGee Marine Underwriters
Bill Harper	Farmers Insurance Group
Elizabeth Mocerri	Allstate Insurance Company

Committees

The Association has an investment committee and a nominating committee.

Conflict of Interest

The Association has a conflict of interest policy statement and questionnaire to disclose conflicts of interest. No exceptions were noted.

Fidelity Bond and Other Insurance

Fidelity bonds and other insurance were reviewed in relation to the property and liability claims that may arise in the ordinary course of business. WGFS has all the standard types of coverage normally maintained by a business and its fidelity bond meets the suggested minimum in the FCEH.

CORPORATE RECORDS

The corporate records were reviewed for the period under examination. All BOD meetings were conducted with a quorum present. There have been no changes to the plan of operation since the last examination.

ACCOUNTING RECORDS AND INFORMATIONS SYSTEMS

The Association maintains its accounting records on a cash basis and does not prepare a balance sheet. WGFS was audited for 2004 by the certified public accounting firm of Stockman, Kast, Ryan and Company. Previously, it was audited by the JDS Professional Group and received an unqualified opinion for all years under review. The Association's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were found, except as noted in the Recommendations.

SUBSEQUENT EVENTS

None

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report comments and recommendations were corrected.

FINANCIAL STATEMENTS

WASHINGTON INSURANCE GUARANTY ASSOCIATION STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS DECEMBER 31, 2004

	<u>BALANCE</u> <u>PER ASSOCIATION</u>	<u>REF</u>	<u>EXAM</u> <u>ADJ</u>	<u>BALANCE PER</u> <u>EXAMINATION</u>
<u>Cash receipts</u>				
Member Insurer Assessments	\$0			\$0
Interest Income	202,630			202,630
Recoveries	8,181,504			8,181,504
Transfers (to) from other insolvencies	0			0
TOTAL CASH RECEIPTS	<u>8,384,134</u>		<u>0</u>	<u>8,384,134</u>
<u>Cash Disbursements</u>				
Premium Refunds	(820)			(820)
Losses	4,354,311			4,354,311
Loss adjusting expenses - allocated	1,821,321			1,821,321
Loss adjusting expenses - unallocated	498,327			498,327
TOTAL CASH DISBURSEMENTS	<u>6,673,139</u>		<u>0</u>	<u>6,673,139</u>
Increase (decrease) in restricted member guaranty funds	1,710,995			1,710,995
Restricted member guaranty funds:				
Beginning of year	14,636,275			14,636,275
End of year	<u>\$16,347,270</u>		<u>0</u>	<u>\$16,347,270</u>

NOTES TO FINANCIAL STATEMENTS

The Association has no special consents, permitted practices or orders from the state of Washington.

ACKNOWLEDGEMENT

The cooperation and assistance of the Association during the examination is hereby acknowledged.

In addition to the undersigned, John Gaynard, CFE, CPA, CPCU, Life and Disability Supervisor, and Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan Campbell". The signature is written in black ink and is positioned above a horizontal line.

Susan Campbell, CPA, AFE, FLMI
Examiner-In-Charge
State of Washington

by her is true to the best of her knowledge and belief.

Susan Campbell

Susan Campbell, CPA, AFE, FLMI
Examiner-In-Charge
State of Washington

Subscribed and sworn to before me on this 16th day of October, 2006.

Colleen Jansen

Notary Public in and for the
State of Washington

