



was delivered to the Association, with the verified Report being transmitted to the Association electronically (PDF file, via e-mail) on March 6, 2008 to Ms. Candie Kinch, Executive Director. The verified Report is attached hereto and incorporated herein as Exhibit A.

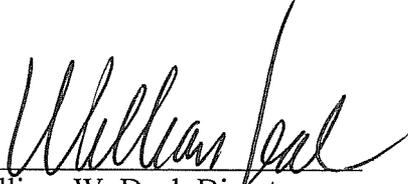
#### WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver signed by Ms. Kinch on March 17, 2008 and received by the Department on March 17, 2008 (via e-mail, PDF file). Based upon the Waiver/Exhibit B, this is a final order, and the Association has waived its rights to seek reconsideration and judicial review of this order.

#### ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 26<sup>TH</sup> day of March 2008.

  
\_\_\_\_\_  
William W. Deal, Director  
IDAHO DEPARTMENT OF INSURANCE

**CERTIFICATE OF SERVICE**

I hereby certify that on this 26<sup>th</sup> day of March 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Candie Kinch	<u>    X    </u>	certified mail
Executive Director	<u>          </u>	first class mail
Idaho Life and Health Insurance Guaranty Association	<u>          </u>	hand delivery
4700 N. Cloverdale Road, Suite 204	<u>          </u>	Facsimile
Boise, Idaho 83713-1068	<u>          </u>	
e-mail: ckinch@idlifega.org	<u>    X    </u>	e-mail

Georgia Siehl, CPA, CFE	<u>          </u>	certified mail
Bureau Chief / Chief Examiner	<u>          </u>	first class mail
Idaho Department of Insurance	<u>    X    </u>	hand delivery
700 W. State St., 3 <sup>rd</sup> Floor	<u>          </u>	facsimile
Boise, Idaho 83720-0043	<u>          </u>	
e-mail: Georgia.Siehl@doi.idaho.com	<u>    X    </u>	e-mail



William R. Michels, MBA, CPA, CFE  
Examination Supervisor  
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

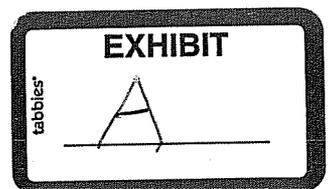
of

IDAHO LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION  
(a non-profit guaranty association)

as of

December 31, 2006

<b>FILED</b>	<u>3/6/08</u>	<u>kel</u>
	date	initial
<b>ADOPTED</b>	<u>3/26/08</u>	<u>kel</u>
	date	initial
<b>STATE OF IDAHO</b> Department of Insurance		



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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

WILLIAM W. DEAL  
Director

Boise, Idaho  
March 6, 2008

The Honorable William W. Deal  
Director of Insurance  
State of Idaho  
700 West State Street  
Boise, Idaho 83720

Dear Sir:

Pursuant to your instructions, in compliance with Sections 41-219(1) and 41-4315, Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

Idaho Life and Health Insurance Guaranty Association  
4700 N. Cloverdale Road, Suite 204  
Boise, Idaho 83713-1068

hereinafter referred to as the "Association," at the offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2002, through December 31, 2006, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Sections 41-219(1) and 41-4315, Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook*. Verification and valuation of assets, liabilities, and the fund balances, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

There was some reliance on the 2006 independent Certified Public Accountant's audit report and workpapers in this examination.

A letter of representation attesting to the Association's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

## PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 1997 through December 31, 2001.

A review was made to ascertain what action was taken by the Association with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exception was adequately addressed by the Association.

## HISTORY AND DESCRIPTION

The Association was created as a non-profit, unincorporated legal entity by the legislative enactment of a statute known as the Idaho Life and Health Insurance Guaranty Association Act of 1977. The purpose of its formation was to provide for the payment of covered claims of Idaho resident policyholders, insureds, and specific others in the event of the financial impairment or insolvency of any life and accident and health insurance companies which are licensed to write business in the State of Idaho.

In order to provide the foregoing protection, the Act provides in part for the following:

- The creation of an association of insurers to enable a guaranty of payment of benefits and a continuation of insurance coverages to resident policyholders of the impaired or insolvent insurance companies.
- That member insurers of the Association are subject to assessments to provide funds to carry out the purpose of this Act.
- The Association is authorized to assist the Director of the Idaho Department of Insurance in the prescribed manner in the detection and prevention of insurers' financial impairments or insolvencies.

The process of handling an insolvency and all of the duties related thereto was usually initiated by the Association after receiving a notice of impairment/insolvency of a member insurer, either from the Idaho Department of Insurance or another domiciliary state.

As most insolvencies affect policyholders in multiple states, information regarding those insolvencies are gathered by the National Organization of Life and Health Guaranty Associations (NOLHGA) through the effort of task forces and consultants who work with the receivers of the insolvent companies. NOLHGA is an organization that was formed by the state guaranty associations to serve as a centralized base of operation. NOLHGA's main function is to gather and disseminate information through its Membership Participation Council to those state guaranty associations which are affected by the insolvencies.

#### MANAGEMENT AND CONTROL

The Association conducted its business in accordance with its Plan of Operation as stipulated by Section 41-4310, Idaho Code. The Plan of Operation for guaranty associations is in lieu of corporate bylaws.

The Association's Plan of Operation provided for a Board of Directors consisting of five to nine member insurers. In accordance with Section 41-4307, Idaho Code, a majority of the Board members were Idaho domestic insurers.

The Board of Directors served as a governing body and exercised all authority provided for by the State of Idaho statutes in the conduct of the business and affairs of the Association. Meetings of the Board were held on an annual basis and special meetings were called as necessary under certain conditions, which were specified in the Plan of Operation.

An annual meeting of the Board is to be held at the office of the Association on the second Thursday of July unless the Chairman of the Board, upon prior notice, designates another date or location.

Officers of the Association included a Chairman, a Vice-Chairman, and a Secretary/Treasurer who were elected from among the Board Members.

### Member Insurers

Pursuant to Section 41-4306, Idaho Code, all insurers licensed to sell life, annuity or disability insurance are required to be member insurers of the Association. Member insurers are any persons licensed to transact insurance in Idaho described under Section 41-4303, Idaho Code. This applies to direct life insurance policies, contractual obligations of managed care plans to members of such plans only, disability insurance policies, annuity contracts, and contracts supplemental to life and disability insurance policies and annuity contracts issued by persons licensed to transact insurance in Idaho. Also under Section 41-4306, Idaho Code, all member insurers shall be and remain members of the Association as a condition of their authority to transact insurance in Idaho.

### Directors

As previously noted, the Plan of Operation provided that the Board of Directors would consist of five to nine member insurers represented by a designated person or an alternate from the same member insurer. Directors were elected to serve alternating terms of three years. The following member insurers were duly elected as Directors of the Association as of December 31, 2006:

<u>Company Name</u>	<u>Company Representative</u>	<u>Term Expires</u>
Blue Cross of Idaho Health Service, Inc.	Thomas Bassler	2009
Farm Bureau Mutual Insurance Company of Idaho	Richard Petersen	2008
Farmers New World Life Insurance Company	James Ignozzitto	2007
ING USA Annuity & Life Insurance Company	M. Bishop Bastien	2008
Metropolitan Life Insurance Company	Greg Redmond	2007
Regence BlueShield of Idaho, Inc.	John Stellmon	2009
United Heritage Life Insurance Company	Deborah Sloan	2009

Subsequent to the examination date, Farmers New World Life Insurance Company and Metropolitan Life Insurance Company were re-elected to three years terms starting in 2007 to expire in 2010.

The Association notified and obtained written approval of the members elected to the Board of Directors from the Department of Insurance pursuant to Article 3.D of the Plan of Operations and Section 41-4307, Idaho Code.

## Officers

The following persons were serving as officers of the Association at December 31, 2006:

Thomas Bassler	Chairman
John Stellmon	Vice Chairman
Deborah Sloan	Secretary/Treasurer

## Committees

The Plan of Operation provided for an Audit Committee, an Investment Committee, and a Nominating Committee that were appointed by the Chairman. The Audit Committee shall engage a certified public accountant to review or audit the financial affairs of the Association. Such accountant shall report his or her findings to the Audit Committee, who shall in turn report on the findings to the Board of Directors. The Investment Committee shall adopt an Investment Policy for the Association's cash not immediately needed to meet its obligations and to adopt procedures to ensure compliance with the Investment Policy. The Nominating Committee shall select nominees to succeed Directors whose terms expire at the annual meeting of the member insurers. The Chairman also appointed an Executive Committee and members of the Board to a Legislative Committee. The following individuals were serving on the various committees as of December 31, 2006:

### Audit Committee

John Stellmon, Chairman  
Deborah Sloan  
Jim Ignozzitto

### Executive Committee

Thomas Bassler, Chairman  
John Stellmon  
Deborah Sloan

### Investment Committee

Deborah Sloan, Chairman  
Jim Ignozzitto  
Greg Redmond

### Legislative Committee

Richard Petersen, Chairman  
John Stellmon

### Nominating Committee

John Stellmon, Chairman  
Richard Petersen  
Thomas Bassler

## Conflict of Interest

The Association established conflict of interest guidelines. The guidelines require each employee to complete a statement of any action, activity or relationship that could conflict with the Association's interest. The disclosure statement completed by the Executive Director was reviewed and indicated no conflicts of interest.

The Association also established a procedure for certification of confidentiality and non-disclosure for the Board of Directors. The certification stated that all information received in the meetings or correspondence of the Association would be maintained in confidence and not be disclosed, or discussed, or used for any purpose other than legitimate business purposes of the Association. Disclosure statements that were completed by the Directors during this examination period indicated nothing unusual. The Confidentiality/Non-disclosure Certifications were completed in lieu of a conflict of interest statement.

### Contracts and Agreements

The Association had the following agreements and/or arrangements in effect at December 31, 2006:

#### Policy and Claim Administration Agreement

The Association entered into an agreement effective December 1, 2002 with the Oregon Life and Health Insurance Guaranty Association. Under this agreement, the Association provided policy administration and claim services arising from insolvent member insurer, Amalgamated Labor Life Insurance Company. Policy administration included premium billing, collection, and lapse notices, while claims were processed according to this agreement, the underlying insurance contracts, and Oregon's association law. The Association was paid \$60 per in-force policy per year for services provided. In 2006, the Association booked \$660 for fees, which were reported as *Other* revenue in the Statement of Revenues and Expenses, Comprehensive Income and Changes in Net Assets.

The agreement may be terminated with sixty days written notice by either party. Unless otherwise terminated, the agreement will expire after all policy and claims administration is completed and all contract terms are satisfied. The agreement was executed by the Association on October 23, 2002.

The Board of Directors approved the agreement in an action taken without a meeting on October 17, 2002.

#### Administrative Services Agreement

An administrative services agreement was executed on September 8, 2004 with Disability Insurance Specialists, LLC (DIS) for DIS to provide administrative services in support of individual disability policies originally underwritten by Legion Insurance Company. The agreement was effective August 1, 2003 and will remain in-force five years and annually thereafter until terminated. At the end of five years, the agreement may be terminated by written notice to either party by at least 180 days in advance. The agreement may also be terminated due to dissolution or insolvency of DIS in the first five years of the agreement.

Under the agreement, DIS billed and collected premiums and adjudicated and paid claims. DIS was paid \$1.875 per policy per month, plus 2 percent of premiums collected. For claims services, DIS was paid \$500 per claim reported, plus 5 percent of claim

payments. In addition, DIS was reimbursed for reasonable fees and costs. In 2006, the Association paid fees of \$1,293 under this agreement.

#### Other Administrative Arrangements

Additionally, the Association administered the policies and claims for Idaho Teachers Mutual Insurance Company, Life and Health Insurance Company of America and States General Life Insurance Company. In this regard, *Unearned premiums* and *premiums earned* of \$5,517 and \$57,102, respectively, were reflected in the 2006 financial statements.

#### Investment Management Agreement

The Association executed an investment advisory agreement with D. B. Fitzpatrick & Co., Inc. (DBF) on May 7, 2004. Under the agreement, DBF acted in the Association's stead in the sale, transfer, assignment or purchase of investment assets entrusted to DBF. In this connection, DBF provided investment and reinvestment advice of assets placed under the agreement. The investments must be consistent with the Association's investment objectives. The agreement may be terminated at will upon written notice by either party to the other and termination is effective upon receipt of said written notice.

The Association paid a quarterly fee of .0625% (or .25% annually) of the portfolio's market value at the end of the preceding quarter to DBF. Additional charges such as brokerage, taxes, or other expenses were not included in the quarterly fee. In 2006, investment management fees of \$20,171 were paid to DBF.

At their meeting on July 17, 2004, the Board of Directors confirmed the action of the Investment Committee in hiring DBF as investment advisor.

Additional comments relative to the Investment Management Agreement are reported in Note (1) to the Financial Statements.

#### Lease-Rental Agreement and Deposit Receipt

The Association entered into a lease agreement with Osprey Investments, Inc. for office space commencing September 1, 2006 until August 31, 2007. Rent under the lease was \$800 a month and included reception and voice mail services. Subsequent to the examination date, the lease was renewed under the same terms and conditions as the original lease agreement. The length of the renewed lease was September 1, 2007 through August 31, 2008.

Previously, the Association leased office space under a three year agreement that commenced on September 1, 2000 and expired August 31, 2003. The agreement was renewed on September 1, 2003 through August 31, 2006. Upon expiration, the Association entered into the lease-rental agreement noted above.

#### Early Access Agreements

The Association entered into early access agreements with the various states or liquidators of insolvent member insurers. The agreements provide that estate recoveries

received by the Association prior to the closure of the estate may be recaptured by the estate to allow for a pro rata distribution to claimants. The terms of the agreements vary by insolvency, but in general, set forth the duties and obligations of the Association and other parties with respect to the distribution of assets pursuant to a plan of disbursements or liquidation plan. The agreements may contain a provision for NOLHGA to file an omnibus proof of claim for all claims of the Association and all other life and health guaranty associations.

## CORPORATE RECORDS

### Plan of Operation

As previously reported, the Association operates under its Plan of Operation. The Association's records indicated that the Plan of Operation was not amended during the period under examination.

### Minutes of Meetings

A review of the minutes of the meetings of the member insurers and the Board of Directors for the examination period and subsequent thereto, indicated compliance with the Plan of Operation with respect to annual meeting dates, election and/or appointment of directors and officers, and the transaction of corporate business. Specifically, the Board approved transfers to and from the various fund balances, authorized the Association to execute and enter into contracts, and accepted the audited financial statements, among other things. This review of the minutes also indicated that a quorum was present at the annual members' meetings and at all Board of Directors' meetings.

The minutes of the Board of Directors' meeting held June 15, 2002 indicated that the Report of Examination as of December 31, 2001 had been accepted by the Directors.

## FIDELITY BOND AND OTHER INSURANCE

Insurance coverages for the protection of the Association have been maintained throughout the period under examination. Coverages in effect as of December 31, 2006 included public employee dishonesty, business personal property and business liability coverages and workers' compensation insurance.

The Association maintained employee dishonesty coverage in an amount that met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The insurance companies providing coverage to the Association were licensed or otherwise authorized in the State of Idaho.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Association offered a Simplified Employee Pension plan to its employees. The Association will contribute 5 percent of the employee's salary after completion of three years of employment. The employees may also participate in a Salary Reduction Simplified Employee Pension Plan after they have been employed for one year. The employee may contribute up to 10 percent of their salary into the Plan. The Association also offers life, health and long term disability insurance for the executive director.

## TERRITORY AND PLAN OF OPERATION

The Association was established by Title 41, Chapter 43, Idaho Code to protect resident policyholders, insureds, beneficiaries, annuitants, payees and assignees of life insurance policies, health insurance policies, managed care plans, annuity contracts and supplemental contracts in the State of Idaho due to the impairment or insolvency of the insurer issuing such policies or contracts. If a domestic insurer is impaired or insolvent, the Association may also provide protection for persons who are not residents, but only under certain conditions as provided for in Sections 41-4308(1)(d) and 41-4308(2)(d), Idaho Code.

Under Section 41-4308, Idaho Code, the Association is obligated to pay covered claims to a limit of \$100,000 in cash values or \$300,000 for all benefits, including cash values, with respect to any one life.

The Association has maintained its office in Boise, Idaho, since its inception. During 2006, the Association moved its offices to a new location in Boise. Currently, all operations are performed at this location.

## GROWTH OF THE ASSOCIATION

The Association's growth for the years indicated, as taken from the prior examination report and its independent audit reports is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Fund Balances</u>	<u>Excess (Deficiency) of Revenues over Expenses</u>
2001*	\$8,602,949	\$575,393	\$8,027,556	\$ 17,831
2002	8,662,220	439,383	8,222,837	195,281
2003	8,397,227	419,273	7,977,954	(244,883)
2004	8,469,270	464,059	8,005,211	27,257
2005	8,062,062	365,720	7,696,342	(308,869)**
2006*	8,995,118	637,410	8,357,708	661,366**

\* As determined by Examination.

\*\* Includes comprehensive income – see Note 1, Notes to Financial Statements

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

As previously reported under *MANAGEMENT AND CONTROL*, the Association acts as a third party administrator for certain impaired and/or insolvent member insurers. During the current examination period, it was necessary for the Association to increase insurance premiums to meet rising claim costs for one such member insurer. The rate filings were submitted to and marked filed certified by the Idaho Department of Insurance.

### Treatment of Policyholders

#### Claims

A sample of claims paid during 2006 was reviewed during the course of this examination. The review indicated that the sampled claims were settled properly and that payments were made in a timely manner.

#### Complaints

The Association maintained a complaint register. Based on a review of complaints filed with the Association during the examination period, the complaints were resolved in a timely manner. The format of the complaint register was in compliance with Section 41-1330, Idaho Code.

The Association is aware of the fraudulent claim procedure set forth under Section 41-290, Idaho Code. According to management, there were no fraudulent claims identified during the examination period.

#### Assessments

The Association's Board of Directors is authorized to levy assessments on member insurers when it is determined that the liquidation proceeds for an insolvent insurer are insufficient to cover its existing and anticipated claims. The following are the types of assessments set forth under Section 41-4309, Idaho Code:

- Class A assessments are made to provide funds to meet administrative costs and other general expenses of the Association and may be authorized and called whether or not they are related to a particular impairment or insolvent insurer. The class A assessment may be authorized and called on a non pro rata basis and may be credited against future class B assessments. The amount of a class B assessment shall be allocated among the accounts pursuant to an allocation formula which may be based on the premiums or reserves of the impaired or insolvent insurer or any other allocation standard deemed fair and reasonable.
- Class B assessments are made to the extent deemed necessary to carry out the powers and duties of the Association under Section 41-4308, Idaho Code, with regard to an impaired or insolvent insurer. Class B assessments shall be in the proportion that the

premiums received on Idaho business by each assessed member insurer on policies covered by each account for the calendar year preceding the assessment bears to such premiums received on Idaho business by all assessed member insurers. A managed care organization shall not be subject to class B assessments for any domestic, foreign or alien insurer that is declared insolvent by any court prior to July 1, 2000.

The total of all class B assessments shall not exceed two percent of the member insurer's premiums received in Idaho during the calendar year preceding the assessment.

The Association may abate or defer, in whole or in part, the assessment of a member insurer if payment of the assessment would endanger the ability of such to fulfill its contractual obligations. Such abated or deferred assessments may be assessed against the other member insurers. When the conditions that caused an abatement or deferral have been removed or rectified, the member insurer shall pay all assessments that were deferred pursuant to a repayment plan approved by the Association.

The Board of Directors may refund to member insurers the amount by which the assets of the accounts exceed the amount found necessary to carry out the obligations of the Association with regard to that account, including net realized gains and income from investments. The refund is in proportion to the contribution of each insurer to that fund balance account. A reasonable amount may be retained in any account to provide funds for the continuing expenses of the Association and for future losses.

During the examination period and subsequent thereto, the Board of Directors did not authorize any class A or class B assessments or make any refunds to member insurers.

#### Advertising and Sales Material

The Association prepares a Summary of Coverages brochure that is disseminated to member insurers. Otherwise, the Association does not advertise. Information about the Association is available to the general public on its website at [www.idlifega.org](http://www.idlifega.org).

### ACCOUNTS AND RECORDS

#### General Accounting

The Association utilized Quickbooks Pro 2007, commercially available accounting software, to generate accounting and financial information. The member insurer database system was purchased from a professional developer and modified for Idaho's specific requirements. The Association has one personal computer running Windows XP.

The Association is not an insurance company and does not file financial statements with the NAIC. However, it is required by Section 41-4315, Idaho Code, to submit an annual financial report for the preceding calendar year and a report of its activities to the

Director by May first. Consequently, the Association does not maintain its accounting records on the statutory basis of accounting. Instead, the accounting records are maintained on a cash basis throughout the year and adjusted to the accrual basis of accounting at year end. Therefore, the Association's financial statements are prepared under generally accepted accounting principals.

In 2006, the Association elected to present comparative financial statements, which were considered to be of more value to users of the financial statements. The comparative statements resulted in some minor changes to the 2006 audit report, Notes to the Financial Statement, and in the order of presentation of certain information.

#### Independent Accountants

As previously stated, the Association is required to submit an annual financial report to the Department of Insurance. In this regard, the annual independent audits of the Association for the years 2002 through 2006 were performed by Richter, Stuart, and Todeschi, P.A., Certified Public Accountants, Boise, Idaho. The financial statements in each report were prepared on the basis of generally accepted accounting principles. There was some reliance on the 2006 audit report and workpapers in this examination of the Association.

### FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2006

Statement of Revenues and Expenses, Comprehensive Income and Changes in Net Assets for the year ended December 31, 2006

Balance Sheet  
As of December 31, 2006

ASSETS, LIABILITIES, AND NET ASSETS

	<u>Per</u> <u>Association</u>	<u>Examination</u> <u>Adjustments</u>	<u>Per</u> <u>Examination</u>
<u>Assets</u>			
Cash and money market	\$ 584,340	\$ 0	\$ 584,340
Investments (Note 1)	8,365,583	0	8,365,583
Interest receivable	43,735	0	43,735
Other assets	1,460	0	1,460
Total	<u>\$ 8,995,118</u>	<u>\$ 0</u>	<u>\$ 8,995,118</u>
<u>Liabilities</u>			
Accounts payable	\$ 2,446	\$ 0	\$ 2,446
Claims payable	305,000	0	305,000
Projected assumption reinsurance liability (Note 2)	324,447	0	324,447
Unearned premiums	5,517	0	5,517
Total	<u>\$ 637,410</u>	<u>\$ 0</u>	<u>\$ 637,410</u>
<u>Net Assets</u>			
Administrative Account (Note 3)	\$ 313,669	\$ 0	\$ 313,669
Composite Account (Note 3)	1,249,868	0	1,249,868
American Chambers Life Insurance Company	(239,082)	0	(239,082)
American Integrity Insurance Company	(4,154)	0	(4,154)
American Western Life Insurance Company	(14,506)	0	(14,506)
Centennial Life Insurance Company	46,867	0	46,867
Confederation Life Insurance Company	(4,416)	0	4,416
Consumers United Insurance Company	10,527	0	10,527
Executive Life Insurance Company	6,267,003	0	6,267,003
Fidelity Bankers Life Insurance Company	(13,806)	0	(13,806)
Idaho Teachers Mutual Insurance Company	72,424	0	72,424
International Financial Services Life Insurance Company	(16,660)	0	(16,660)
Kentucky Central Life Insurance Company	1,451,169	0	1,451,169
Legion Insurance Company	32,893	0	32,893
Life and Health Insurance Company of America	(19,569)	0	(19,569)
London Pacific Life & Annuity Company	(193,238)	0	(193,238)
Midwest Life Insurance Company	(1,055)	0	(1,055)
Monarch Life Insurance Company	(14,215)	0	(14,215)
Reliance Insurance Company	(18,179)	0	(18,179)
States General Life Insurance Company	(40,504)	0	(40,504)
Universe Life Insurance Company	(43,077)	0	(43,077)
Wasatch Crest Mutual Insurance Company	(366,991)	0	(366,991)
Accumulated other comprehensive income (Note 1)	(97,260)	0	(97,260)
Total	<u>\$ 8,357,708</u>	<u>\$ 0</u>	<u>\$ 8,357,708</u>
Total Liabilities and Net Assets	<u>\$ 8,995,118</u>	<u>\$ 0</u>	<u>\$ 8,995,118</u>

Statement of Revenues and Expenses, Comprehensive Income and Changes in Net Assets  
for the year ended December 31, 2006

		<u>Per Association and Examination</u>				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	
<u>Revenues:</u>						
Member company assessments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Premiums earned	57,102	110,134	71,839	51,331	46,804	
Interest income	446,393	339,356	266,860	232,482	370,635	
Estate recoveries	1,027,720	29,118	499,427	47,869	408,408	
Other	660	540	600	720	840	
Total revenue	<u>\$1,531,875</u>	<u>\$479,148</u>	<u>\$838,726</u>	<u>\$332,402</u>	<u>\$826,687</u>	
<u>Expenses:</u>						
Assessment refunds	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	
Policyholder benefit claims	328,807	63,363	175,720	28,372	78,564	
Assumption reinsurance payments	323,715	363,809	418,351	377,773	394,739	
Payroll and related benefits	84,086	83,530	75,326	72,609	70,332	
Rent	11,932	12,671	12,560	12,560	12,298	
Administrative expenses	25,918	34,410	22,399	13,091	17,217	
NOLHGA assessments	53,875	82,049	87,765	66,547	47,715	
Professional fees	47,051	44,879	18,528	5,345	9,290	
Depreciation	498	673	820	988	1,251	
Total expenses	<u>\$ 875,882</u>	<u>\$ 685,384</u>	<u>\$ 811,469</u>	<u>\$ 577,285</u>	<u>\$631,406</u>	
Excess (Deficiency) of revenues over expenses	\$ 655,993	\$(206,236)	\$ 27,257	\$ (244,883)	\$ 195,281	
Other comprehensive income (loss) (Note 1)	<u>5,373</u>	<u>(102,633)</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Comprehensive income (loss) (Note 1)	661,366	(308,869)	0	0	0	
Net Assets, beginning of year	<u>7,696,342</u>	<u>8,005,211</u>	<u>7,977,954</u>	<u>8,222,837</u>	<u>8,027,556</u>	
Net Assets, end of year	<u>\$8,357,708</u>	<u>\$7,696,342</u>	<u>\$8,005,211</u>	<u>\$7,977,954</u>	<u>\$8,222,837</u>	

## NOTES TO THE FINANCIAL STATEMENTS

Note (1) Investments	\$8,365,583
Accumulated other comprehensive income	(97,260)
Other comprehensive income	5,373
<u>    Comprehensive income</u>	<u>661,366</u>

During the previous examination periods and up to 2004, the Association classified its investments as held to maturity and carried such in the financial statements at amortized cost. As previously stated, the Association entered into an Investment Management Agreement with D. B. Fitzpatrick & Co., Inc. in 2004. As a result, the Association's investments were considered actively managed and consequently were classified as available for sale and recorded in the financial statements at fair market value. As discussed below, net unrealized holding gains or losses on the investments available for sale were recorded as *Other comprehensive income*.

In this connection, the Association adopted Statement of Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income* in 2005. The statement establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. SFAS No. 130 stipulates that all items required to be recognized under accounting standards as components of comprehensive income be disclosed in the financial statements. Comprehensive income is the total of net income and other comprehensive income which, for the Association, is comprised of unrealized gains and losses on investments available for sale.

Net unrealized holding gains or losses on available for sale investments of \$5,373 were recorded as *Other comprehensive income (loss)* in the 2006 financial statements.

<u>Note (2) Projected assumption reinsurance liability</u>	<u>\$324,447</u>
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This liability relates to the Executive Life Insurance Company insolvency. The liability is actuarially determined and represents the amount necessary to give 100 percent contractual coverage, up to the amount specified by law, under covered insurance policies held by Executive Life. The assumption reinsurance liability is accrued for projected amounts payable within the next year. The current year liability of \$324,447 is based on the prior year's experience. Management's best estimate of the future unrecorded reinsurance liability at this time is \$3,175,401.

The Association has not assessed or accrued for all potential reinsurance or claim liabilities for certain insolvent insurers. The total liability relating to these insolvencies is not yet determined. Potential liabilities for other insolvent insurers are not currently determinable. Assessments for the liabilities will be made in future periods as amounts become due, if necessary.

Note (3) Administrative Account	\$ 313,669
<u>Composite Account</u>	<u>1,249,868</u>

The Association utilized fund accounting to record the results of its financial activities and to account for its net assets. Separate funds were maintained in the *Administrative Account* for the Association's administrative activities and for each insolvent member insurer. Transactions within the separate funds included estate recoveries, assumption reinsurance, and overhead allocations, among other things.

Effective October 31, 2006, the Association's Board of Directors approved the establishment of the *Composite Account*. The purpose of this account is to hold excess funds resulting from insolvency activities for use in other or future insolvencies, thus reducing the number and cost of assessments and allowing for funds to be available immediately for payment of claims and assumption reinsurance expenses. Funds in the *Composite Account* were segregated by line of business in accordance with Section 41-4306(1)(a), (b), and (c), Idaho Code, and funds can only be used to offset insolvency expenses in like lines of business. All transfers into and out of the *Composite Account* required approval by the Board of Directors.

Fund transfers were transfers of an excess balance related to one insolvency to the balance of other insolvencies with like lines of business, as approved by resolution of the Association's Board of Directors. Fund transfers reduced the need for small assessments and assessment refunds, thereby reducing administrative costs. Funds that are not transferred may be refunded to the member insurers pursuant to Section 41-4309(6), Idaho Code or distributed to the General Fund of the State of Idaho under the circumstances set forth in Section 41-4313(2), Idaho Code.

#### SUBSEQUENT EVENTS

On August 9, 2007, the Marion County, Indiana, Circuit Court issued an order placing Benicorp Insurance Company, an Indiana-domiciled life and health insurance company licensed to do business in Idaho, into rehabilitation.

In a letter dated October 11, 2007, the Department of Insurance gave official approval for the Association to discharge its duties regarding the liquidation of Benicorp Insurance Company.

#### SUMMARY, COMMENTS AND RECOMMENDATIONS

##### Summary

The results of this examination disclosed that as of December 31, 2006, the Association had total assets of \$8,995,118, total liabilities of \$637,410, and net assets of \$8,357,708.

There are no minimum net asset and/or fund balance requirements for guaranty associations regulated under Title 41, Chapter 43, Idaho Code.

The examination did not make any adjustments to the balance sheet accounts. Therefore, the net assets and fund balances reported by the Association were not changed by the examination.

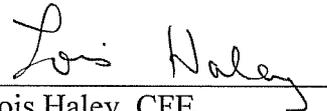
Comments and Recommendations

There are no examination comments and recommendations made in the examination report.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Association's Executive Director in conducting the examination.

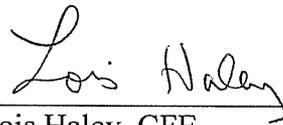
Respectfully submitted,



Lois Haley, CFE  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance

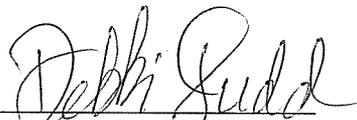
State of Idaho  
County of Ada

Lois Haley being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of *Idaho Life and Health Insurance Guaranty Association* for the period from January 1, 2002, through December 31, 2006, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.

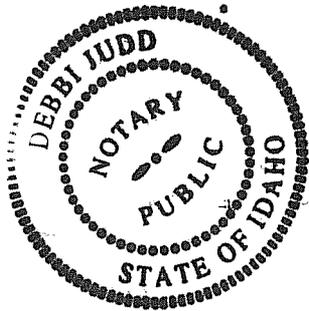


Lois Haley, CFE  
Senior Insurance Examiner  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 16<sup>th</sup> day of March, 2008, at Boise, Idaho.



Notary Public



My Commission Expires: 7/30/2010

State of Idaho  
**DEPARTMENT OF INSURANCE**

C.L. "BUTCH" OTTER  
Governor

700 West State Street, 3rd Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Phone (208)334-4250  
FAX # (208)334-4398

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2006, of:

**Idaho Life and Health Insurance Guaranty Association  
4700 N. Cloverdale Road, Suite 204  
Boise, Idaho 83713-1068**

By executing this Waiver, the Association hereby acknowledges receipt of the above-described examination report, verified as of the 6th day of March 2008, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 17th day of March, 2008

Condie Kinch

Name (print)

Condie Kinch

Name (signature)

Executive Director

Title

*Equal Opportunity Employer*

**EXHIBIT**

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