

The Missouri
Property and Casualty Insurance
Guaranty Association

2010
Annual
Report

**ANNUAL REPORT OF THE
MISSOURI PROPERTY AND CASUALTY INSURANCE
GUARANTY ASSOCIATION
FOR FISCAL YEAR ENDING DECEMBER 31, 2010**

Prepared for

The Director of the Missouri Department of Insurance,
Financial Institutions and Professional Registration

Prepared by

Charles F. Renn, Executive Director
Missouri Property & Casualty Insurance Guaranty Association

M I S S O U R I

Property & Casualty

I N S U R A N C E
G U A R A N T Y A S S O C I A T I O N

994 DIAMOND RIDGE, SUITE 102
JEFFERSON CITY, MISSOURI 65109

PHONE: 573-634-8455
FAX: 573-634-8488

March 31, 2011

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial Institutions &
Professional Registration
301 W. High St.
P.O. Box 690
Jefferson City, MO 65101

Dear Director Huff:

On behalf of the Missouri Property and Casualty Insurance Guaranty Association (the Association"), it is a pleasure to submit the Association's Annual Report for the year ending December 31, 2010. This report has been prepared in accordance with the provisions of Section 375.775 of the Revised Statutes of Missouri.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law by President Obama. The wide sweeping reforms of this federal legislation include provisions that stand to have direct impact on the state-based guaranty association system. As a member of the state-based guaranty association system and working cooperatively with other state guaranty associations through membership in the National Conference of Insurance Guaranty Funds ("NCIGF"), the Association will closely monitor the impact of this federal legislation. The Association continually strives to provide expedient and quality service to those Missouri consumers who are negatively impacted by the insolvency of a property and casualty insurer. The Association would have concerns over any federal regulatory changes that would jeopardize the welfare of Missouri insurance consumers.

It is consistently a pleasure to work with the staff of the Missouri Department of Insurance, Financial Institutions and Professional Registration. Their assistance and support are crucial to our operation. The other members of the Board and the staff of the Association look forward to the continued positive working relationship that exists with the Department.

Sincerely,



Michael P. Voiles, Board Chair
Farm Bureau Town & Country
Insurance Company of Missouri



Charles F. Renn, Executive Director
Missouri Property and Casualty Insurance
Guaranty Association

TABLE OF CONTENTS

BOARD OF DIRECTORS	iv
GENERAL	1
2010 MEETINGS	1
OFFICE OF THE EXECUTIVE DIRECTOR.....	2
FINANCIAL REPORTS	3
2010 INSOLVENCY ASSESSMENT	3
INSOLVENCIES.....	3
LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE ACTIVITY	3
LOSS AND LOSS ADJUSTMENT EXPENSE PAYMENTS.....	4
OPEN INSOLVENCIES	4
SUMMARY COMMENTS ON ESTATES WITH SIGNIFICANT AND MATERIAL ACTIVITY	6
CALIFORNIA COMPENSATION INS. CO. / COMMERCIAL COMPENSATION INS. CO.	6
HOME INSURANCE COMPANY	6
IMPERIAL CASUALTY AND INDEMNITY COMPANY	6
LEGION / VILLANOVA INSURANCE COMPANIES.....	7
LUTHERAN BENEVOLENT INSURANCE EXCHANGE / LUTHERAN BENEVOLENT ASSOCIATION (COLLECTIVELY "LBI")	7
MIDLAND INSURANCE COMPANY	8
PARK AVENUE PROPERTY & CASUALTY INSURANCE COMPANY	8
PHICO	9
P.I.E. MUTUAL INSURANCE COMPANY.....	9
RECIPROCAL OF AMERICA	9
RELIANCE INSURANCE COMPANY	10
TRANSIT CASUALTY COMPANY.....	10
LITIGATION	11
FINANCIAL REPORTING AND AUDIT AS OF DECEMBER 31, 2010	12
INDEPENDENT AUDITORS' REPORT	12
FINANCIAL STATEMENTS	13
NOTES TO FINANCIAL STATEMENTS	16

Board of Directors
of the
Missouri Property and Casualty Insurance
Guaranty Association

<u>COMPANY</u>	<u>REPRESENTATIVE</u>
American Family Mutual Insurance Company	David A. Monaghan
Automobile Club Inter-Insurance Exchange	Robert Schreiber
Cornerstone National Insurance Company	D. Scott Forrest
Farm Bureau Town & Country Insurance Company of Missouri	Michael P. Voiles
Liberty Mutual Insurance Company	Charles H. Burhan
Shelter Mutual Insurance Company	Joe L. Moseley
State Farm Mutual Automobile Insurance Company	Debra G. Wozniak

**ANNUAL REPORT OF THE
MISSOURI PROPERTY AND CASUALTY INSURANCE
GUARANTY ASSOCIATION
FOR YEAR ENDING DECEMBER 31, 2010**

The Annual Report of the Missouri Property and Casualty Insurance Guaranty Association (the "Association") for the year ending December 31, 2010 is herewith submitted to the Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP") and the Board of Directors.

GENERAL

As of December 31, 2010, there were 925 companies licensed to sell property and casualty insurance coverage and by the terms of sections 375.771 to 375.779, Revised Statutes of Missouri, all were deemed to be members of the Association. Lines of coverage written by the authorized member insurers are identified on the State Supplemental Page to the Annual Statement. The Association does not cover all of the lines of coverage identified on the State Supplemental Page.

2010 MEETINGS

The Annual Meeting of the Membership was held on September 21, 2010. As a course of business for this meeting, three members were elected to serve on the Board of Directors for a term that will expire in 2013. Those members are:

**American Family Mutual Insurance Company
Representative: David Monaghan**

**Farm Bureau Town & Country Insurance Company of Missouri
Representative: Michael P. Voiles**

**Liberty Mutual Insurance Company
Representative: Charles Burhan**

On the same date, the Board of Directors elected the following officers to serve for a term of one year, or until a successor is duly elected:

<u>NAME</u>	<u>COMPANY</u>
Michael P. Voiles, Chair	Farm Bureau Town & Country Insurance Company of Missouri
Debra G. Wozniak, Vice- Chair	State Farm Mutual Automobile Insurance Company
David A. Monaghan, Secretary/Treasurer	American Family Mutual Insurance Company

During 2010, the Board of Directors continued the practice of meeting regularly on a quarterly basis. The Board employs this practice to facilitate involvement with the ongoing functions and the administrative duties of the Association. Minutes of all meetings of the Member Insurers, the Board of Directors, and other Board appointed committees are on file at the office of the Association in Jefferson City, Missouri.

OFFICE OF THE EXECUTIVE DIRECTOR

During 2010, the Association remained focused on improving operations through the utilization of technology. Throughout the year, the Association focused on expansion of reporting requirements by the Centers for Medicare & Medicaid Services ("CMS"). The Association has spent considerable time and resources to become compliant with electronic data exchange standards developed by the CMS. The goal of these standards is to assure that Medicare is the secondary payor in situations where other insurance is involved. This applies to workers' compensation coverage as well as general liability coverage.

The Association continues to be active in the National Conference of Insurance Guaranty Funds (the "NCIGF"). During 2010, the federal government enacted sweeping reforms in the area of financial services regulation. The Association joined with the NCIGF to develop data that demonstrates that the national state-based property and casualty insurance guaranty association system is viable and can handle the resolution of large, multi-faceted insolvencies. This information will be shared with the various oversight groups and agencies that are contemplated in the new federal law.

The Association is active in several committees of the NCIGF. The Executive Director represents the Association by serving on the following committees of the national organization:

NCIGF Board of Directors

Board Finance Committee

The Accounting Issues Committee - Chair

The Strategic Plan Oversight Committee

The Casualty Reciprocal Exchange/Equity Mutual Coordinating Committee - Chair

The PHICO Coordinating Committee

The Reciprocal of America Coordinating Committee

FINANCIAL REPORTS

The Association's financial records are the subject of an annual independent audit. Interim financial reports and transactions are reviewed by the Board of Directors and committees of the Board. The audited financial statements as of and for the year ending December 31, 2010 are included with this report. Further, the notes to the financial statements are also included as an integral part of the report. The accounting firm of Williams-Keepers, LLC, Jefferson City, Missouri, conducted the independent audit of the financial records of the Association.

2010 INSOLVENCY ASSESSMENT

The Association is authorized under section 375.775, Revised Statutes of Missouri, to assess its membership for the purpose of providing the funding necessary to meet the Association's requirements with respect to insolvent member insurers. At the September 21, 2010 meeting of the Board of Directors, it was determined that no assessment would be made in 2010.

INSOLVENCIES

As of December 31, 2010, the Association administered 49 open insolvencies. Included in this total are 31 insolvencies which have no open claims. There was one new insolvency in 2010.

Loss and Loss Adjustment Expense Reserve Activity

During 2010 the open claims count for the Association decreased by 49. Reflected below is a summary of ending reserves and reserve changes for 2010:

	Open	Loss	Expense	Change	Change	Change
	Claims	Reserves	Reserves	in Open	in Loss	in Expense
				Claims	Reserves	Reserves
Totals	104	33,141,281	2,070,496	(49)	(4,148,370)	459,837

Loss and Loss Adjustment Expense Payments

Payment Activity for 2010:

Company	Losses Paid	ALAE Paid	Salvage & Subrogation
AMLICO	16,889	2,742	0
California Comp	143,473	6,220	0
Commonwealth General	0	0	0
Commercial Comp	33,295	3,839	0
CRE	100,101	4,882	0
Credit General	536,988	1,960	0
Employers Casualty	85	0	0
Employers National	47,484	197	0
Equity Mutual	0	0	0
Fremont Ins Co	318,833	27,073	0
Home Insurance Co	187,910	14,115	0
Imperial CIC	0	0	0
Legion	552,993	41,701	0
Park Ave	0	0	0
PHICO	0	4,407	(3,449)
Reliance	(28,575)	39,012	0
ROA	265,332	17,931	0
Shelby Casualty	0	2,026	0
Statewide Ins Co	48,140	2,730	0
Villanova	40,583	1,943	0
Total	2,263,531	170,777	(3,449)

Open Insolvencies

Section 375.775.1(6), Revised Statutes of Missouri, requires that a financial report for the preceding year be submitted to the Director of the Missouri Department of Insurance. Further, Section 375.776.5(3), Revised Statutes of Missouri, requires the Association to prepare a summary report describing the history and causes of individual insolvencies. This Annual Report contains a review of the activities of the Association during the preceding year. The following vignettes are intended to fulfill the requirement for a summary report, and to update the membership about the status of each estate that had significant and material activity during the calendar year 2010. A listing of all open estates and their state of domicile is included for the memberships' reference.

Open Insolvencies

1985

Ideal Mutual Ins. Co. - NY
Transit Casualty Ins. Co. - MO
Union Indemnity Ins. Co. - NY

1986

American Fidelity Ins. Co. - NY
Midland Ins. Co. - NY

1987

Integrity Ins. Co. - NJ

1989

American Mutual Ins. Co. of Boston - MA
American Mutual Liability Ins. Co. - MA
Great Atlantic Ins. Co. - DE

1991

American Universal Ins. Co. - RI
Rockwood Ins. Co. - PA
Western Employers Ins. Co. - CA

1992

First Southern Ins. Co. - FL
West General Ins. Co. - KS

1993

Bel-Aire Ins. Co. - MO

1994

Employers Casualty Ins. -TX

1995

United Community Ins. Co. - NY

1996

Coronet Ins. Co. -IL
Lutheran Benevolent Ins. Exchange - MO
United Southern Assurance Co. - FL

1997

American Eagle Insurance Co. - TX

2000

California Compensation Ins. Co. - CA
Commercial Compensation Casualty Co. - CA
HIH America Compensation & Liability - CA
LMI Insurance Co. - OH

2001

Acceleration National Ins. Co. - OH
Credit General Ins. Co. - OH
Far West Insurance Co. - NE
Reliance Ins. Co. - PA
Sable Ins. Co. - CA

2002

PHICO Ins. Co. - PA

2003

Fremont Insurance Co. - CA
Home Insurance Co. - NH
Legion Ins. Co. - PA
Villanova Ins. Co. - PA
Millers Insurance Co. - TX
Reciprocal of America - VA

2004

Casualty Reciprocal Exchange - MO
Equity Mutual Insurance Co. - MO
IGF Insurance Co. - IN
Protective National Ins. Co. of Omaha - NE
Security Indemnity - NJ
Statewide Insurance Co. - IL

2005

Consolidated American Ins. Co. - SC

2006

Shelby Casualty Ins. Co. - TX
Vesta Fire Ins. Co. - TX

2008

Lawrenceville P&C (MIIX) - NJ

2009

Park Avenue P&C Ins. Co.-OK

2010

Imperial Casualty Insurance Co. - OK

SUMMARY COMMENTS ON ESTATES WITH SIGNIFICANT AND MATERIAL ACTIVITY

California Compensation Ins. Co. / Commercial Compensation Ins. Co.

The receiver filed a petition to distribute estate assets for these two companies on August 31, 2010. The deadline for filing objections to this proposal was September 30, 2010. No objections were filed and the estates made distributions of \$210 million and \$30 million, respectively. The Association received its share of these early access distributions on October 18, 2010. The total amount for both companies was approximately \$2.5 million.

Home Insurance Company

At the end of October, 2010, the estate made a \$7 million Class 1 distribution to the affected guaranty funds. As of the date of the distribution, the estate liabilities totaled \$4.4 billion in comparison to assets of \$1.9 billion. Approximately 70% of the reserve liabilities are on asbestos and pollution claims. Guaranty fund claims represent approximately \$950 million-\$1.5 billion of Home's reserves. The estate currently has approximately 9500 open claims.

Home has paid approximately \$35 million to date in guaranty association Class 1 administrative expense claims and expects that number to eventually reach approximately \$70 million. The Association received \$86,029 as its share of the distribution. Home is preparing its petition for the seventh early access distribution. The deputy receiver had expected to file a petition prior to year end seeking authority to make such a Class 2 distribution of \$10-12 million in 2011.

The estate is holding approximately \$20.8 million in collateral related to large deductible policies. The receiver is prepared to distribute \$7.5 million in deductible collections to the guaranty associations as soon as an administration agreement can be finalized.

Imperial Casualty and Indemnity Company

On May 12, 2010, the District Court of Oklahoma County, Oklahoma approved an order of liquidation against this company. The company had been in rehabilitation since March of 2010. The company is an affiliate of the Park Avenue Property and Casualty Insurance Company. A significant issue with this company is a loss portfolio transfer and 100% quota share reinsurance agreement with Park Avenue. The company intended to transfer all of its pre-January 30, 2009, claims to Park Avenue. The Oklahoma Department of Insurance has determined that there was not a novation of the liabilities and the losses are still the responsibility of Imperial Casualty and Indemnity Company.

The company was licensed in Missouri in January of 2005. The financial reports filed with the Missouri regulators do not show any written premium. However, the company's financial statements indicate that in 2008 there was approximately \$150,000 of written premium in Missouri.

All Imperial policies were first dollar workers' compensation with large per claim deductibles. No workers' compensation coverage was written without a deductible. The oldest policies were written in 2003. The claims that were presented to the Association either exceeded the statutory limitation on deductible amounts or the claim was within the policy deductible. In either case, the Association did not have a significant involvement in this insolvency.

Legion / Villanova Insurance Companies

In July of 2010, the Commonwealth Court in Pennsylvania approved an order that allowed the receiver to distribute \$212 million marshaled estate assets. The distribution was made under the existing Early Access Agreement. On September 27, 2010 the Association received approximately \$1.5 million from these two estates as its portion of the distribution. The receiver continues to work in collecting reinsurance recoveries.

Further, the receiver has been collecting reimbursements for policyholders that purchased coverage through large deductible programs. When an affected guaranty association pays claims within the deductible, they are entitled to reimbursements from those policyholders that have pledged collateral to secure the deductible. The estate has agreed to handle this collection process and then distribute the collections, net of an administrative fee, to the affected guaranty associations.

Lutheran Benevolent Insurance Exchange / Lutheran Benevolent Association (collectively "LBI")

On November 18, 2010 the receiver filed a notice on behalf of the Lutheran Benevolent Insurance Exchange / Lutheran Benevolent Association (collectively "LBI") to make additional distributions from its general assets. Also, because the Liquidator has apparently received very few claims over the past several years, the Liquidator in its filings stated it believes the estate should begin preparations for its closing.

These Missouri domiciled companies were the subject of an Order of Liquidation approved December 2, 1996. A bar date for filing a claim was set as June 30, 1997. On December 1, 1997, the Court approved payment of receiver's claims determinations, allowing a partial distribution at the rate of 65%, to all Class 2 creditors holding approved proofs of claim.

As of this filing, the receiver has paid approx \$2 million toward all Class 1 claims, and \$2.9 million toward all Class 2 claims. The estates balance sheet as of June 30, 2010 shows the estate has approximately \$3.6 million in assets remaining, and a possible additional \$451,548 in reinsurance collections. If the court authorizes and orders payment of approved claims at the rate of 65%, the payout would total approximately \$2 million.

Midland Insurance Company

Everest Reinsurance Company ("Everest") filed a motion in the Midland liquidation court proceeding seeking to lift the permanent injunction staying litigation that was entered at the outset of the Midland liquidation. Everest brought the motion so that Everest could bring an action against the Midland Liquidator asserting a breach in the obligations under reinsurance agreements between Midland and Everest and that, therefore, Everest has no obligation to pay reinsurance proceeds to the Midland Liquidator. Everest is asserting it has a contractual right under its reinsurance agreements to actively participate in the Liquidator's handling and allowance of claims including a right to be involved with the Liquidator's settlement of claims. A number of guaranty associations filed papers in opposition to Everest's motion.

The liquidation court entered two orders in response to Everest's motion. In these orders, the Court held that Everest's contractual right to interpose defenses could only be exercised in the proceeding in which the Court adjudicates the claim after the Liquidator has recommended the allowance of a claim. The Court's decision has been appealed by Everest, the other reinsurer participants in the matter, the Liquidator and the guaranty associations.

Everest contends in its appeal that the Court committed error by not permitting Everest to become involved with the Liquidator's handling of claims and that the Court erred in ruling that Everest's rights may only be exercised in a proceeding in which a claim is adjudicated. The guaranty associations have appealed the Court's orders to the extent the Court's orders would allow Everest to interpose defenses as to a claim which the Liquidator has settled or as to a claim which the Liquidator is bound by law to allow, such as guaranty association claims. Everest filed an appeal. The response briefs of the guaranty associations and the Liquidator were filed on June 28, 2010.

Park Avenue Property & Casualty Insurance Company

On November 18, 2009, the District Court of Oklahoma County, Oklahoma issued an Order of Liquidation for the Park Avenue Property & Casualty Insurance Company. The company was formerly known as Providence Property & Casualty Insurance Company. Park Avenue was licensed in twenty-eight states, including Missouri. The company's writings were exclusively large deductible workers' compensation insurance. The programs were marketed almost exclusively to professional employee organizations ("PEO").

None of the claims initially allocated to the Association for handling met the statutory test for covered claims. This was basically due to the fact that policies under which the claims were made were written with deductibles exceeding the statutory maximum amount. At this point, it does not appear that the Association will have any statutory obligations related to this insolvency.

PHICO

On June 11, 2010, the Association received \$4,214,157 in Early Access funds from the estate. This payment represents 100% of the administrative expenses and 50% of the incurred loss and expense payments made by the Association. The uniqueness of this distribution is that it is based on incurred rather than paid losses. This approach is consistent with the receiver's desire to close the estate as soon as possible.

P.I.E. Mutual Insurance Company

On November 24, 2009, the liquidation court approved the Liquidator's Motion for Order Approving the Liquidator's Final Report of Claims, Reserve for Administrative Expenses, and Authorizing Final Distribution of Assets of The P.I.E. Mutual Insurance Company. The Liquidator made a final pro rata distribution to claimants holding allowed Class 2 claims. The distribution raised the reimbursement level to 82.14% of losses. There are insufficient funds available in the P.I.E. estate to pay allowed Class 2 claims in full and to pay any claims in any class below Class 2.

On April 20, 2010, the liquidation court followed up with an Order Granting Liquidator's Application for Order Terminating Liquidation Proceedings and Terminating Liquidation Proceedings. This concludes the activity of this insolvency with respect to ongoing interactions with the receiver.

Consistent with statute, the Association was able to remit the amounts received from the estate representing amounts that had been assessed from the member insurers and offset against premium tax. The amount returned to the Missouri Department of Revenue totaled over \$19 million.

Reciprocal of America

Efforts have been underway to obtain reimbursement from this estate for administrative expenses incurred on the estate's behalf by the Association. The receiver informed the Association that the information sent in support of the administrative expense claim was being reviewed. As a result of the review, the receiver for this estate made a distribution of \$638,886. The period covered by this reimbursement is July 1, 2003 through December 31, 2009. The actual amount of the claim filed by the Association was for \$751,465 of incurred administrative expenses. The receiver has committed to ongoing consideration of claims for administrative expenses incurred subsequent to 2009.

Reliance Insurance Company

On December 29, 2009, the receiver for this estate filed a petition requesting approval to make a fifth Early Access distribution to the affected guaranty associations. The receiver is asking the Commonwealth Court of Pennsylvania to approve a distribution of approximately \$393 million. There is a significant difference in this distribution from prior distributions. The receiver intends to base this distribution on incurred losses as opposed to paid losses, the previously used basis. The petition limited distributions to 55% of losses incurred. This resulted in sixteen affected guaranty associations having "Claw-Back" obligations to refund approximately \$23.5 million to the estate. This distribution was made in April of 2010.

At the close of 2009, the estate had reached an agreement with affected guaranty associations relating to certain administrative expenses. Distributions on the agreed upon determination of administrative expense were made in 2010.

In another claim related matter, the presiding judge in the Reliance Liquidation, issued an opinion and an order which sided with Warrantech, an automobile warranty company, finding that the Warrantech claims are "claims under policies for losses." The ruling also remanded the matter to the Liquidator for issuance of an amended Notice of Determination reclassifying the claims in the appropriate priority class.

The Liquidator had argued that the Reliance policies issued to Warrantech were more like reinsurance and therefore should be relegated to a priority class less than the policyholder claim level. The court concluded that if the policies at issue are not considered insurance "policies for losses", then it would be difficult to see why all claims under policies covering the risk of commercial or contractual loss would not similarly be excluded from the policyholder claim priority level. Since many claims under these policies had been paid by affected guaranty associations, this ruling supports the guaranty associations' claim in the estate.

Transit Casualty Company

In late February of 2010, the estate obtained approval in the Cole County, Missouri Circuit Court of an order to make the fourteenth partial distribution of assets. The proposed distribution is for an additional 4%, increasing the total policyholder class distribution from 80% to 84%.

Subsequently, a hearing was held on August 30, 2010 in the Cole County Circuit Court regarding the Application for an Administrative Order to Treat Unacknowledged Notices of Determination as Void. This pertains to previously filed proofs of claim in this estate. According to the Chief Operating Officer for the estate, removal of the unacknowledged Notices of Determination is expected to free up approximately \$277,000 which will then be available for distribution to the remaining Class 2 creditors including the guaranty associations.

The estate has not acted on the court's approval to make a fourteenth partial distribution of assets. The receiver has sought court approval for the destruction of certain estate records. The receiver is now anticipating a closing of the estate in early 2011.

LITIGATION

It is part of the statutory responsibility of the Association in assuming the obligations on covered claims of the insolvent insurer to provide for the defense of insureds. Consequently, the Association is involved in numerous instances of defense litigation. This section of the report is not intended to address litigation of this nature. In contrast, this section of the report is intended to highlight those instances where the Association is litigating a matter involving an interpretation of the Missouri Property and Casualty Insurance Guaranty Association Act. There is no such litigation pending as of December 31, 2010.

**Financial Reporting
and Audit
for the year ending
December 31, 2010**



CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800

3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240

www.williamskeepers.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Missouri Property and Casualty Insurance
Guaranty Association

We have audited the accompanying statement of financial position of the Missouri Property and Casualty Insurance Guaranty Association (the Association) as of December 31, 2010, and the related statements of activities and cash flows for the year 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 audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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 the Missouri Property and Casualty Insurance Guaranty Association as of December 31, 2010, and its changes in net assets and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Williams-Keepers LLC

March 31, 2011

MISSOURI PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

Cash and cash equivalents	\$ 4,324,958
Investments	78,622,837
Accounts receivable	474,908
Unbilled assessments	38,942,977
Computer software, net of accumulated depreciation of \$86,898	35,464
Total assets	<u>\$ 122,401,144</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 25,300
Due to Missouri Life and Health Insurance Guaranty Association	26,812
Early access liability	74,910,761
Reserves for losses and loss adjustment expenses	<u>34,831,777</u>
Total liabilities	109,794,650
NET ASSETS - UNRESTRICTED	<u>12,606,494</u>
Total liabilities and net assets	<u>\$ 122,401,144</u>

The notes to financial statements are an integral part of these statements.

MISSOURI PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

SUPPORT AND REVENUES	
Liquidation distributions	\$ 23,020,381
Net investment return	<u>386,954</u>
Total support and revenues	<u>23,407,335</u>
EXPENSES	
Program expenses	
Losses and loss adjustment expenses (net of subrogation and salvage of \$3,449 and \$38,733, respectively)	2,430,859
Decrease in reserves for losses and loss adjustment expenses	(4,068,532)
Other, net	<u>24,943</u>
Program expenses (gain), net	(1,612,730)
General and administrative expenses	507,511
Refunds - State of Missouri	<u>19,293,249</u>
Total expenses, net of decrease in reserves	<u>18,188,030</u>
Change in unrestricted net assets	5,219,305
Unrestricted net assets, beginning of year	<u>7,387,189</u>
Unrestricted net assets, end of year	<u>\$ 12,606,494</u>

The notes to financial statements are an integral part of these statements.

MISSOURI PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

STATEMENT OF CASH FLOWS For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 5,219,305
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	22,058
Realized losses on investments, net of change in unrealized loss	1,193,800
Change in accounts receivable	1,919,926
Change in accounts payable	25,300
Change in due to Missouri Life and Health Insurance Guaranty Association	(1,971)
Change in early access liability	(9,950,651)
Change in reserves for losses and loss adjustment expenses	(4,068,534)
Net cash used by operating activities	<u>(5,640,767)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	148,382,879
Purchases of investments	(151,398,025)
Purchase of computer equipment	<u>(33,575)</u>
Net cash used by investing activities	<u>(3,048,721)</u>
Net change in cash and cash equivalents	(8,689,488)
Cash and cash equivalents, beginning of year	<u>13,014,446</u>
Cash and cash equivalents, end of year	<u>\$ 4,324,958</u>

The notes to financial statements are an integral part of these statements.

MISSOURI PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Missouri Property and Casualty Insurance Guaranty Association ("Association") is a nonprofit, unincorporated legal entity established on September 28, 1971 by Missouri Revised Statute 375.775 to be obligated for the payment of covered claims, as that term is defined by statute. To provide this protection, the Association was created to guarantee payment of benefits and continuation of coverage. All insurers doing business in the State of Missouri are member insurers of the Association and will remain members of the Association as a condition of their authority to transact business in the State of Missouri. The Association's functions are primarily to employ and retain individuals to handle claims and perform other duties related to insolvent insurers.

The Association performs its functions under a plan of operation approved by the Missouri Director of Insurance and exercises its powers through a Board of Directors. The Association is subject to the immediate supervision of the Missouri Director of Insurance and the insurance laws of the State of Missouri.

Basis of accounting: The financial statements of the Association have been prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation: The Association uses the American Institute of Certified Public Accountants' not-for-profit model for accounting and financial reporting. Therefore, the Association reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Association had only unrestricted net assets during 2010.

Use of estimates: Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amount of assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and cash equivalents: Cash and cash equivalents include certain interest bearing bank accounts and overnight repurchase agreements, which invest in various highly liquid investments. The Association considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk: Financial instruments that potentially subject the Association to concentration of credit risk consist primarily of cash, overnight repurchase agreements and investments. The Association did not maintain deposit balances in excess of FDIC coverage at December 31, 2010. The Association held an overnight repurchase agreement balance of approximately \$4,331,000 at December 31, 2010. Overnight repurchase agreements are not secured. However, the Association requires that U.S. government and agency securities underlying the repurchase agreements must have a fair value of at least 100% of the cost of the repurchase agreement. The fair values of U.S. government and agency securities underlying repurchase agreements are determined daily.

Investments: Investments consist primarily of U.S. Government backed securities and are reported on the statement of financial position at fair value, as described more fully in Note 2.

Accounts receivable: Accounts receivable consists of liquidation distribution receivables and investment interest receivable. The Association considers all receivables at December 31, 2010 to be fully collectible and has not recorded an allowance for doubtful accounts.

Unbilled assessments: Unbilled assessments represent an accumulation of all future assessments that may be made in order to cover the estimated claims and loss adjustment expenses of current insolvencies. The potential future assessment amount is estimated at the beginning of the liquidation of an insurer and is subsequently reduced as assessments are billed.

Computer software: Purchases of computer software are recorded at cost. The costs of normal maintenance and repairs are expensed as incurred. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related assets on a straight-line basis over three years. Depreciation expense for the year ended December 31, 2010 totaled \$22,058.

Assessments: For assessment purposes, the Association maintains three accounts: (1) the automobile insurance account; (2) the workers compensation insurance account; and (3) the all other insurance account. In order to provide funds necessary to carry out the powers and duties of the Association, the Board of Directors (Board) is authorized to assess the member insurers, in a combined assessment or separately for each account, at such time and for such amounts as the Board deems necessary. The Board is further authorized to make refunds to member insurers if the Board determines that assets of the Association in any account exceed the liabilities of that account as estimated by the Board. To the extent that any sums to be refunded have been offset against premium taxes paid by member insurers to the State of Missouri, the Association distributes the refund to the Director of Revenue of the State of Missouri.

Assessments of member insurers of the Association are based on the proportion that the net direct written premium for specified coverages of each member insurer for the preceding calendar year bears to the total net direct written premiums for that coverage of all member insurers doing business in the State of Missouri for the preceding calendar year. The assessments are made at the discretion of the Board of Directors whenever funds are necessary to pay claims and expenses, but are limited to 1% of the net direct written premium of the member insurer. There were no assessments made during 2010.

Income Taxes: The Association was created by state statute, Chapter 375 RSMo. In 1975, the Internal Revenue Service determined the Association to be an instrumentality of the State of Missouri as described in Section 115 of the Internal Revenue Code.

Subsequent Events: Events that have occurred subsequent to December 31, 2010 have been evaluated through March 31, 2011, which represents the date the Association's financial statements were approved by management and, therefore, were available to be issued.

2. INVESTMENTS

Investments consisted of the following as of December 31, 2010:

	Cost	Unrealized Gain (Loss)	Fair Value
U.S. agency bonds and notes	\$ 79,032,761	\$ (577,733)	\$ 78,455,028
Mortgage backed securities	165,810	1,999	167,809
Total investment securities	<u>\$ 79,198,571</u>	<u>\$ (575,734)</u>	<u>\$ 78,622,837</u>

Contractual maturities of investment securities as of December 31, 2010, are shown below, based on the expected call date.

	Cost	Unrealized Gain (Loss)	Fair Value
Due in one year or less	\$ 165,810	\$ 1,999	\$ 167,809
Due in one to five years	73,207,959	(477,753)	72,730,206
Due in six to ten years	5,824,802	(99,980)	5,724,822
Total investment securities	\$ 79,198,571	\$ (575,734)	\$ 78,622,837

The following table shows the gross unrealized losses and fair value of the Association's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010.

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. agency bonds and notes	\$ 74,634,225	\$ (588,836)				
Total	\$ 74,634,225	\$ (588,836)	\$ -	\$ -	\$ -	\$ -

The above table represents twenty-two investment securities as of December 31, 2010, where the current fair value is less than the related cost. Management believes the impairments to be temporary in all cases. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Association to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

U.S. government agencies -- The unrealized losses on the Association's investments in U.S. government agencies were caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. government. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Association has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Association did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Fair Value Disclosures -- Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The fair value hierarchy is as follows:

Level 1	Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access.
---------	--

- Level 2 Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

The following is a description of valuation methodologies used for assets disclosed at fair value.

Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets, and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

The table below presents the Association's assets measured at fair value as of December 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall:

Assets	Level 1	Level 2	Level 3	Total
Investment securities	\$ -	\$ 78,622,837	\$ -	\$ 78,622,837

Net investment return for the year ended December 31, 2010 consisted of the following:

Increase in unrealized loss on investments	\$ (58,000)
Net realized loss on sales	<u>(1,135,800)</u>
	(1,193,800)
Interest income	<u>1,580,754</u>
Net investment return	<u>\$ 386,954</u>

3. EARLY ACCESS LIABILITY

The Association receives distributions from insolvent insurer estates to be used to offset claims expenses incurred by the Association on behalf of the insurer. In some instances, such distributions are made to the Association pursuant to an early access agreement prior to the payment of other estate creditors. Early access distributions are made with the provision that if equal or higher priority creditors require payment from the estate that the Association is obligated to repay the funds. The Association accounts for such obligations as a liability at the time the cash is received. The early access liability is reflected on the accompanying statement of financial position and was approximately \$75,000,000 at December 31, 2010.

4. RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The Association receives estimates of losses and loss adjustment expenses from the receivers through the National Conference of Insurance Guaranty Funds (NCIGF) and other entities. Management analyzes the information received from NCIGF and other entities, industry trends and the effects of Missouri statute limitations on the estimates prior to arriving at the recorded liability. The methods for making such estimates and for establishing the resulting liability are continually reviewed by management and any adjustments are reflected currently. Accordingly, losses and loss adjustment expenses are reported in the statement of activities as incurred.

The total reserves for losses and loss adjustment expenses were approximately \$35,000,000 at December 31, 2010. These reserves are based on estimates and, while management presently believes the estimated reserves for losses and loss adjustment expenses at December 31, 2010 are adequate, the actual liability could vary considerably from the amount presented in these financial statements.

As a result of changes in estimated losses incurred with respect to prior year events, the reserves for losses and loss adjustment expense decreased by approximately \$4,069,000 in 2010.

5. LINE OF CREDIT

The Association maintains a \$15,000,000 unsecured revolving line-of-credit which bears an interest rate at greater of .5% plus prime (3.25% at December 31, 2010) or 5%. There were no borrowings under this agreement during 2010. The agreement expires on April 5, 2011.

6. CONTRACT

On May 8, 2001, the Association entered into an agreement with the Missouri Life and Health Insurance Guaranty Association (MLHIGA) whereby MLHIGA provides common administration and management of both associations. The agreement is cancelable by either party by giving six months notice and continues in existence until terminated. Each association is responsible for its proportionate share of employee and overhead expenses. Such expenses are allocated at cost in proportion to the estimated utilization by each association. Allocation methods are reviewed periodically based on current operations and resources utilized by the associations. The Association was allocated expenses of \$348,252 from MLHIGA for the year ended December 31, 2010. On occasion, the Association will make direct payments to MLHIGA's vendors for expenses that are directly related to the Association's operations.

7. LEASE COMMITMENT

The Association leases office space under a long-term, non-cancelable operating lease. The existing lease requires monthly rental payments of \$1,625 through July 31, 2011. This lease results in a commitment of \$11,375 for the year ending December 31, 2011.

Office lease expense under the above lease for the year ended December 31, 2010 totaled \$19,500.

8. CONTINGENCIES

The Association is involved in litigation arising in the normal course of its business. In the opinion of management, the Association's recovery or liability, if any, under any pending litigation or administrative proceeding would not materially affect its financial statements.

9. CHANGE IN BASIS OF ACCOUNTING

Effective January 1, 2010, the Association adopted a policy to report under the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The change had the net effect of decreasing unrestricted net assets by \$78,416,203 as of January 1, 2010.