EXHIBIT
A

REPORT ON EXAMINATION

of the

TENNESSEE INSURANCE GUARANTY ASSOCIATION
1600 DIVISION STREET – SUITE 680
NASHVILLE, TENNESSEE 37203

RECEIVED
MAY 19 2008
Dept. Of Commerce & Insurance
Company Examinations

as of

DECEMBER 31, 2006

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
May 19, 2008

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and regulations, a financial examination was made of the condition and affairs of the

TENNESSEE INSURANCE GUARANTY ASSOCIAITON
1600 DIVISION STREET – SUITE 680
NASHVILLE, TENNESSEE 37203

hereinafter and generally referred to as the Association, and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee on December 10, 2007. On-site examination work commenced on December 17, 2007. The examination was performed by a duly authorized representative of the Department of Commerce and Insurance, State of Tennessee ("TDCI").

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2002 to the close of business on December 31, 2006, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2006. The financial condition of the Association and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified

with relative emphasis according to their amount and potential impact on surplus (net assets).

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Plan of Operation
Retirement Plan and Other Employee Benefits
Accounts and Records
Anti Trust Statement and Conflict of Interest Policy
Dividends or Distributions
Litigation
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2001 by authorized representatives of the TDCI. The previous examination resulted in no recommendations and therefore; no directives were issued by the TDCI.

COMPANY HISTORY

The Association was organized pursuant to and operates in accordance with the Tennessee Guaranty Association Act (Tenn. Code Ann. § 56-12-101, *et seq.*) effective July 1, 1971. Under the provisions of this Act, the Commissioner of Commerce and Insurance appointed five (5) members to the Board of Directors. These five members then submitted a "Plan of Operation" on November 21, 1971 to the Commissioner, who approved it effective December 17, 1971. Detail of the Plan is discussed under the caption "PLAN OF OPERATION" in this report.

The following exhibit depicts certain aspects of the growth and financial history of the Association since the previous examination, according to annual reports filed with the TDCI.

Year	Assets	Liabilities	Net Assets	Declared Assessment
2002	$75,949,142	$40,021,869	$35,927,273	$12,829,377
2003	84,590,177	90,585,084	(5,994,907)	14,625,557
2004	84,205,078	97,636,368	(13,431,291)	16,698,100
2005	96,410,519	81,703,269	14,707,250	17,671,355
2006	100,181,874	83,898,505	16,283,369	0

CHARTER AND BYLAWS

No charter or bylaws are required to be filed as the Association operates in accordance with Tenn. Code Ann. § 56-12-101 *et seq.* pursuant to its approved "Plan of Operation."

MANAGEMENT AND CONTROL

Regular meetings and special meetings of the Board of Directors may be held upon the request of any two (2) Board members. The Plan of Operation also states that "the Board shall meet annually at the office of the Commissioner of Commerce and Insurance on the second Tuesday in May, and also upon notice from the Commissioner of any insolvency of a member insurer."

The majority of the Board shall constitute a quorum for the transaction of business and the acts of a majority of the Board members present at a meeting shall be the acts of the Board; except that the affirmative vote of four (4) members is required to:

1. Approve a contract with a servicing facility.
2. Levy an assessment or provide for a refund.
3. Borrow money.

The following were the duly appointed Directors at December 31, 2006:

Name	Company Affiliation
Jerry A. Mayo, Chairman	Praetorian Financial Group
Steven C. Williams, Vice Chairman	State Volunteer Mutual Insurance Company
Hulet M. Chaney, Secretary	Tennessee Farmers Insurance Companies
G. Ron Nichols	State Farm Insurance Companies
Lorrie K. Brouse	Allstate Insurance Company

In May of 1988, the Board appointed an Audit Committee. This Committee is responsible for selecting an accounting firm to perform the annual independent audit of the Association's financial statements and for reviewing the results of the audit.

As of December 31, 2006, the Audit Committee consisted of:

Steven C. Williams, Chairman
Jerry A. Mayo
G. Ron Nichols

Mr. W. Davidson Broemel was named Executive Secretary of the Association on February 14, 1986, and was serving in said position as of the date of this examination. Mr. Broemel acts as the business manager for the Association and is responsible for the general administration of its day-to-day operations. Ms. Ivi Niemann acts as Administrator of the Association. The administrative functions of the Association are performed by the home office staff consisting of eight (8) persons.

Certain services are purchased from outside contractors if needed and are not available from in house personnel. Such services include independent audit and third party administrators for workers' compensation and liability claims.

Auditing Services:	Crosslin, Vaden & Associates, P.C. 2525 West End Avenue, Suite 1100 Nashville, Tennessee 37203
Third Party Administrators:	Alternative Service Concepts, LLC 1101 Kermit Drive, Suite 800 Nashville, Tennessee 37217
	Berkley Risk Administrators Company, LLC 222 South Ninth Street Minneapolis, Minnesota 55402

CORPORATE RECORDS

Minutes of meetings of the Board of the Association and Audit Committee were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2006, the Association maintained the following insurance coverages:

1. A Commercial Crime policy with limit of $1,000,000 and deductible of $10,000 for employee theft and ERISA theft. The policy also includes forgery with a limit of $250,000 and deductible of $5,000 as well as claim

expense with a limit of $250,000 and a deductible of $25,000. The policy is issued by Travelers Casualty & Surety Company of America which is licensed in Tennessee as a "Foreign Property and Casualty Insurer."

2. A Commercial Business Owners Policy covering general liability with a $1,000,000 limit and $2,000,000 general aggregate. This policy also included auto liability with a $1,000,000 limit and workers' compensation. The workers compensation and employee liability coverage is issued by Travelers Casualty and Surety Company and the business auto coverage is issued by The Travelers Indemnity Company. Both companies are licensed in Tennessee as "Foreign Property and Casualty Insurers."

The Association has elected not to obtain Directors and Officers or Errors and Omissions Coverage due to the provision stated in Tenn. Code Ann. § 56-12-116 as follows:

> "There shall be no liability on the part of and no cause of action of any nature shall arise against any member insurer, the association or its agents or employees, the board of directors, or the commissioner or his representatives for any action taken by them in the performance of their powers and duties under this part."

PLAN OF OPERATION

The Association was organized pursuant to, and operates in accordance with, Tenn. Code Ann. § 56-12-101, *et seq.* The purpose of the Association is to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment, and to avoid financial loss to claimants or policyholders because of the insolvency of an insurer, and to provide a process for the Association to assess the cost of such protection among insurers.

The Association has the responsibility to settle covered claims of insurers as of the date the insurer is declared insolvent and any claims arising 30 days after the determination of insolvency. Covered claims are unpaid claims and, prior to July 1 1989, excluded unearned premium claims, which arise out of and are within the coverage and do not exceed the applicable limits of certain insurance policies issued by a member insurer which becomes insolvent. The Association shall pay the full amount of any covered claim arising from a workers' compensation policy. Claim settlement amounts for other coverages are subject to statutory limits or the policy limits, whichever is lower. There is a statutory deductible per claim for all claims except workers' compensation claims. The deductible states that the amount to be paid "shall include the amount which is in excess of $100 and is less than $100,000."

In 1989, the State of Tennessee enacted legislation which provided that, for companies declared insolvent on or after July 1, 1989, unearned premium claims, subject to certain limits, shall be considered covered claims as defined under the Tennessee Insurance Code. These claims also have a statutory deductible. Accordingly, the settlement of such claims is the responsibility of the Association.

In 1995, the State of Tennessee enacted legislation which allows the Association to authorize the Tennessee Local Development Authority to issue tax exempt bonds and/or notes to expedite the handling and payment of natural disaster covered claims if funds needed to pay these claims are in excess of assessment capacity. The act also bars claims which have been filed with the Association and the domiciliary or ancillary receiver after the final date set by a court order for the filing of claims against the domiciliary or ancillary receiver of an insolvent insurer.

In 1999, the State of Tennessee enacted legislation which amended the definition of a covered claim to exclude any first party claim by an insured whose net worth exceeds $10,000,000 or who is an affiliate of the insolvent insurer. This amendment also gave the Association the right to recover the amount of any liability (third party) claim paid on behalf of an insured whose net worth exceeds $25,000,000 or on behalf of any insured who is an affiliate of the insolvent insurance company.

Tenn. Code Ann. § 56-12-104(7)(A) was also amended in 1999 to clarify the definition of "Covered claim" by adding the revised language as follows:

> "Covered claim means an unpaid claim, including one for unearned premiums, submitted by a claimant, which arises out of and is within the coverage and is subject to the applicable limits of an insurance policy to which this part applies and was issued by an insurer which is insolvent, if such insurer becomes an insolvent insurer after March 31, 1999."

Tenn. Code Ann. § 56-12-105(d) provides that "For purposes of assessment, and the maintenance of records, the Association shall be divided into two (2) separate accounts as follows:

1. The workers' compensation insurance account; and
2. The account for all other insurance to which this part applies."

Tenn. Code Ann. § 56-12-107(3) provides that "No member insurer may be assessed in any year on any account an amount greater than two (2) percent of that member insurer's net direct written premiums for the preceding calendar year on the kinds of insurance in the account."

As of December 31, 2006, there were 40 active insolvencies being administered by the Association. The insolvencies are as follows:

Name of Company	Date of Insolvency
Acceleration National Life Insurance Company	2/28/2001
American Eagle Insurance Company	12/3/1997
American Mutual Assigned Risk	3/9/1989
American Mutual Insurance Company	3/9/1989
American Mutual Liability	3/9/1989
American Policyholder's Reimbursement	3/9/1989
American Universal Insurance Company	1/8/1991
Casualty Reciprocal Exchange	8/18/2004
Colonial Casualty Insurance Company	10/7/2002
Commercial Compensation Insurance Company	9/26/2000
Coronet Insurance Company	12/24/1996
Credit General Insurance Company	1/5/2001
Employer's Casualty Insurance Company	2/18/1994
First Southern Insurance Company	10/31/1992
Fremont Indemnity Insurance Company	7/2/2003
Home Insurance Company	3/16/2003
Ideal Mutual Insurance Company	2/7/1985
Integrity Insurance Company	3/24/1987
International Indemnity Insurance Company	1/18/2001
Legion Insurance Company	7/28/2003
Midland Insurance Company	4/3/1986
Mission Insurance Company	2/24/1987
PHICO Insurance Company	2/1/2002
Realm National Insurance Company	6/15/2005
Reciprocal of America Insurance Company	6/20/2003
Reliance Insurance Company	10/3/2001
Rockwood Insurance Company	8/26/1991
Shelby Casualty Insurance Company	8/1/2006
Shelby Insurance Company	8/1/2006
South Carolina Insurance Company	3/21/2005
Southern American Insurance Company	4/10/1992
State Capital Insurance Company	6/21/2004
Statewide Insurance Company	1/6/2004
The Millers Insurance Company	3/24/2003
Transit Casualty Insurance Company	12/3/1985
United Community Insurance Company	11/10/1995
Vesta Fire Insurance Company	8/1/2006
Villanova Insurance Company	7/28/2003
Western Employers Insurance Company	4/19/1991
Western Indemnity Insurance Company	8/8/2003

Two (2) insolvencies, Grangers Mutual Insurance Company and United Southern

Assurance Company had closed since the previous examination report. Grangers Mutual was declared insolvent on August 6, 1997. All of its 60 claims were closed by yearend 2006. United Southern Assurance Company was declared insolvent on September 22, 1997. Only three claims were reported in this insolvency and all were closed by yearend 2006.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

At December 31, 2006, the following benefits were available to the Company's employees:

Group Life, Accidental Death and Dismemberment, Long Term Disability Insurance

The referenced benefits are provided to all full-time employees on a contributory basis. The plan is administered through Reliance Standard Life Insurance Company.

Health Insurance

Medical and dental insurance is provided to all full-time employees on a contributory basis. This coverage is provided through Humana Insurance Company.

Retirement Plan (Defined Benefit Plan)

The Company sponsors a defined benefit pension plan for all eligible employees on a non-contributory basis. An employee becomes eligible for the plan when they have completed 12 months of eligibility service. The benefits are based on length of service and the employee's highest 60 months of consecutive compensation. The official name of the plan is "The Pension Plan for Insurance Organizations formerly known as The Benefits Connection Group Pension Plan."

Retirement Age
65 years (normal retirement)
62 years with 15 years service
55 years with 5 years service (early retirement)

Retirement Savings Plan (Defined Contribution Plan, 401-K)

The Company offers a 401-K Plan for all eligible employees. An employee becomes eligible following their 12 month anniversary of employment. The Company matches 75% of the employee contribution up to a maximum of six percent (6%) of eligible earnings.

Other Benefits

Other benefits available for employees include holidays, sick leave and vacation leave. The time of service with the Association determines the eligibility and amounts of time available to the employee.

ACCOUNTS AND RECORDS

During the course of the examination, such tests and audit procedures were made as were considered necessary. Accounting records conform to generally accepted accounting practices and appear to properly reflect the operations during the period under examination and the status of the Association at the date of examination. The Association converted from a cash basis of accounting to the accrual method in 1987.

The Association converted all open claim files to a paperless system (ImageRight) which went live on September 5, 2006.

The Association continues to utilize the claim accounting system software which is provided by Information Services Unlimited, Inc. of Atlanta, Georgia. This is the same software used by 19 state guaranty associations.

An annual audit of the Association is performed by an independent accounting firm, Crosslin, Vaden & Associates, P.C.

An Independent reserve adequacy review was performed by Willis of Tennessee, Inc. as of December 31, 2006. Willis performed an additional reserve review as of October 31, 2007.

An Independent review of claims handling procedures performed by third party administrators was performed by York Insurance Service Group, Inc. dated January 12, 2006. A follow up audit was subsequently performed in February, 2007.

Books and records of the Association are kept at the home office location:

1600 Division Street – Suite 680
Nashville, Tennessee 37203

ANTITRUST STATEMENT AND CONFLICT OF INTEREST POLICY

The Board enacted an "Antitrust Policy and Compliance Statement" at the May 20, 1996 meeting which is summarized as follows:

"It is the established policy of the Board of Directors (the "Board") of the Tennessee Insurance Guaranty Association ("TIGA") to comply fully with all laws and regulations applicable to its operations. While the creation and operation of the Tennessee insurance guaranty fund is beneficial to consumers and does not raise concerns under federal or state antitrust laws, because the activities and functions of the Board bring together representatives of insurance companies that may be in competition, it is the policy of the Board, in the course of its activities and functions, to discourage and prohibit the disclosure of competitive information and other information that does not further the purposes of the Board and that might be, under certain circumstances and along with other conduct, alleged to be violative of the federal or state antitrust laws. Because the burdens of defending even a frivolous antitrust suit are considerable, it is important to administer and operate the Board in a manner so as to avoid even the appearance of facilitating anticompetitive conduct. Accordingly, the Board has adopted a formal Antitrust Compliance Policy, which applies to all Board meetings and functions."

The Association had adhered to the National Conference of Insurance Guaranty Funds' antitrust policy for many years before adopting a written policy of its own.

The Association has a conflict of interest policy for its employees prohibiting employees from having pecuniary interest in investment or disposition of Association funds.

DIVIDENDS OR DISTRBUTIONS

No dividends or distributions have been paid to the members of the Association since its inception.

LITIGATION

As of December 31, 2006, the Company had no pending litigation other than in the normal course of business involving claim litigation. Possible litigation was not deemed to have a material financial effect.

SUBSEQUENT EVENTS

There have been no new insolvencies reported subsequent to the effective date of this examination, December 31, 2006. The Board has determined not to declare any assessments for the 2007 year.

FINANCIAL STATEMENT

There follows a comparative financial statement covering the years 2002 – 2006 as developed by this examination:

ASSETS

	2002	2003	2004	2005	2006
Cash and cash equivalents	$2,901,559	$8,549,564	$9,837,983	$1,785,268	$1,857,069
Investments	70,942,826	74,351,692	72,615,890	93,449,337	97,758,848
Claims reimbursements receivable	1,483,050	1,649,472	1,498,128	793,483	327,132
Assessments receivable	569,005	0	191,889	339,019	84,855
Prepaid expenses	0	0	0	706	0
Furniture, fixtures and equipment	52,702	39,449	61,188	42,706	153,970
Total assets	$75,949,142	$84,590,177	$84,205,078	$96,410,519	$100,181,874

LIABILITIES AND NET ASSETS (DEFICIENCY)

	2002	2003	2004	2005	2006
Reserve for claims, claim adjustment and administrative expenses	$39,969,348	$90,438,792	$97,528,073	$81,619,274	$83,872,859
Other liabilities	52,521	146,292	108,295	83,995	25,646
Total liabilities	40,021,869	90,585,084	97,636,368	81,703,269	83,898,505
Unrestricted net assets (deficiency)					
Workers' compensation account	(12,497,696)	(44,218,471)	(53,923,318)	(31,214,514)	(38,269,795)
All other insurance accounts	48,424,969	38,223,564	40,492,028	45,921,764	54,553,164
Total net assets	35,927,273	(5,994,907)	(13,431,290)	14,707,250	16,283,369
Total liabilities and net assets	$75,949,142	$84,590,177	$84,205,078	$96,410,519	$100,181,874

SUMMARY OF ACTIVITIES AND CHANGES IN NET ASSETS

	2002	2003	2004	2005	2006
REVENUE					
Investment income	$1,246,962	$816,116	$838,519	$2,463,532	$4,571,742
Liquidation distributions	2,221,418	9,266,545	8,904,642	10,164,199	9,497,251
Assessments (net of uncollectible)	12,475,644	14,623,683	16,698,088	17,697,252	0
Total revenues	15,944,024	24,706,344	26,441,249	30,324,983	14,068,993
Claims Activity					
Claims paid	12,210,732	12,103,587	20,019,599	14,120,934	6,602,738
Claim adjustment expenses paid	2,528,733	3,553,174	6,574,829	4,045,682	5,773,936
Claim and claim adjustment expense recoveries	0	(957,924)	(1,946,269)	(1,819,202)	(3,632,848)
Increase (decrease) in claims and claim adjustment expense reserves	2,729,487	50,469,444	7,089,281	(15,908,799)	2,253,585
Total claims activity	17,468,952	65,168,281	31,737,440	438,615	10,997,411
Less claims reimbursements	115,239	121,605	125,844	107,472	242,373
Net claims activity	17,353,713	65,046,676	31,611,596	331,143	10,755,038
Excess (deficiency) of revenues over claims activity	(1,409,689)	(40,340,332)	(5,170,347)	29,993,840	3,313,955
GENERAL AND ADMINISTRTIVE EXPENSE					
Salary and related expenses	509,536	578,689	659,264	632,933	662,846
Other general and administrative expense	915,402	1,003,159	1,606,773	1,222,366	1,074,990
Total general and administrative expense	1,424,938	1,581,848	2,266,037	1,855,299	1,737,836
Increase (decrease) in unrestricted net assets	$(2,834,627)	$(41,922,180)	$(7,436,384)	$28,138,541	$1,576,119

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

None

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

None

COMMENTS AND RECOMMENDATIONS

Comments:

1. Although minor differences were noted during the course of this examination, none materially affected the operations of the Association or the fund balance as of December 31, 2006.

2. Based on the results of the examination, no deviations from the Tennessee Insurance Guaranty Association Act (Tennessee Code Ann. § 56-12-101, *et seq.*) were found.

3. The Workers' Compensation Account component of unrestricted net assets indicates a negative balance in the amount of ($38,269,795) at December 31, 2006 due to the claim reserves established for this block of business which require claim payments to be made extending far into the foreseeable future. The Association does; however, exhibit a positive overall financial position due to the fact that there is a positive balance in the All Other Insurance Accounts component in the amount of $54,553,164. Tenn. Code Ann. § 56-12-105(d) requires for purpose of assessment and record keeping, the association shall be divided into the above mentioned two (2) separate accounts.

4. The most recent Workers' Compensation assessment was made in the amount of two percent (2%) of premium on October 13, 2005.

5. The most recent All Other assessment was made in the amount of one percent (1%) of premium on November 5, 2001.

Recommendations:

None

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Tennessee Insurance Guaranty Association of Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2006, the Association had assets of $100,181,874, liabilities of $83,898,505, and net assets of $16,283,369.

The courteous cooperation of the officers and employees of the Association extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Tennessee Insurance Guaranty Association dated May 19, 2008, and made as of December 31, 2006, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 19th day of

May, 2008

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

EXHIBIT
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LEADER &
ATT

William D. Leader, Jr.
Eugene N. Bulso, Jr.
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June 10, 2008

Via Hand Delivery

RECEIVED
JUN 10 2008
Dept. Of Commerce & Insurance
Company Examinations

Philip Blustein, CFE
Insurance Examinations Director
Examinations Section
State of Tennessee
Department of Commerce & Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Financial Condition Examination of Tennessee Insurance Guaranty Association made as of December 31, 2006

Dear Mr. Blustein:

I represent the Tennessee Insurance Guaranty Association and am responding on behalf of the Tennessee Insurance Guaranty Association to the Examination Report made as of December 31, 2006 and your May 22, 2008 letter.

This is to advise you that Tennessee Insurance Guaranty Association waives any right to rebuttal with respect to the Examination Report of Tennessee Insurance Guaranty Association made as of December 31, 2006.

Please let me know if you have any questions or wish to discuss.

Thank you for your courtesies and cooperation.

Very truly yours,

Bill Leader

William D. Leader, Jr.

WDL:by
cc: W. David Broemel, Executive Secretary
Tennessee Insurance Guaranty Association

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