

Texas Windstorm Insurance Association

Financial Statements
Years Ended December 31, 2004 and 2003





**Texas Windstorm Insurance
Association**

Financial Statements
Years Ended December 31, 2004 and 2003

Texas Windstorm Insurance Association

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Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

We have audited the accompanying balance sheets of Texas Windstorm Insurance Association (the "Association") as of December 31, 2004 and 2003 and the related statements of income and members' surplus, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Windstorm Insurance Association as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Calhoun & Co., LLP

February 20, 2005

Texas Windstorm Insurance Association

Balance Sheets

<i>December 31,</i>	2004	2003
Assets		
Cash and cash equivalents	\$ 77,803,791	\$ 50,178,293
Premiums receivable	108,153	-
Accounts receivable – affiliate (Note 5)	52,879	84,109
Federal income tax recoverable (Note 10)	280,826	-
Prepaid reinsurance premiums (Note 2)	20,353,029	14,998,015
Deferred acquisition costs	7,235,328	6,363,610
Furniture and equipment, net (Note 1)	608,457	1,042,515
Other	-	276
	\$ 106,442,463	\$ 72,666,818
Liabilities and Members' Surplus		
Liabilities		
Losses and loss adjustment expense reserves (Note 4)	\$ 4,216,417	\$ 6,198,692
Unearned premiums	50,715,314	43,303,278
Advanced premiums	2,993,030	2,559,512
Accounts payable and accrued expenses	822,732	983,281
Ceded reinsurance premiums payable, net of ceding commissions (Notes 2 and 3)	11,575,000	8,823,463
Remittances and items not allocated	91,584	-
Federal income tax payable (Note 10)	-	71,128
Deferred tax liability (Note 10)	-	803,889
Statutory fund payable (Note 6)	28,859,992	-
Total liabilities	99,274,069	62,743,243
Commitments and contingencies (Notes 6, 7, 8, 9, 12 and 13)		
Members' surplus		
Members' surplus	7,168,394	9,923,575
	\$ 106,442,463	\$ 72,666,818

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Income and Members' Surplus

<i>Years ended December 31,</i>	2004	2003
Revenues: (Note 2)		
Premiums earned	\$ 94,972,314	\$ 80,875,506
Premiums ceded	(42,744,987)	(29,174,000)
Net premiums earned	52,227,327	51,701,506
Net investment income	780,280	517,230
Total revenues	53,007,607	52,218,736
Expenses:		
Losses and loss adjustment expenses (Note 4)	6,149,120	24,909,848
Commissions	15,405,226	13,437,569
Other underwriting expenses (Notes 7 and 9)	4,572,728	4,316,144
Premium and maintenance taxes	1,558,580	1,610,882
Statutory fund expense (Note 6)	28,859,992	-
Total expenses	56,545,646	44,274,443
Net (loss) income before federal income tax (benefit) expense	(3,538,039)	7,944,293
Federal income tax (benefit) expense (Note 10)	(782,858)	875,017
Net (loss) income	(2,755,181)	7,069,276
Members' surplus:		
Surplus, beginning of year	9,923,575	2,854,299
Surplus, end of year	\$ 7,168,394	\$ 9,923,575

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows

<i>Years ended December 31,</i>	2004	2003
Cash flows from operating activities:		
Premiums collected, net of reinsurance	\$ 57,465,093	\$ 52,391,695
Losses and loss adjustment expense paid	(8,143,653)	(31,863,328)
Underwriting expenses paid	(22,003,395)	(19,218,851)
Investment income received	780,280	517,230
Advances to affiliate	31,506	99,269
Income taxes paid	(372,954)	-
Other cash received	-	9,425
Net cash provided by operating activities	27,756,877	1,935,440
Cash flows from investing activities:		
Purchases of furniture and equipment	(131,379)	(597,448)
Net increase in cash and cash equivalents	27,625,498	1,337,992
Cash and cash equivalents, beginning of year	50,178,293	48,840,301
Cash and cash equivalents, end of year	\$ 77,803,791	\$ 50,178,293

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Statements of Cash Flows (Continued)

<i>Years ended December 31,</i>	2004	2003
Reconciliation of net (loss) income to net cash provided by operating activities:		
Net (loss) income	\$ (2,755,181)	\$ 7,069,276
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	565,437	555,654
Deferred taxes	(803,889)	803,889
Changes in assets and liabilities:		
Accounts receivable - affiliate	31,230	99,545
Accounts receivables	(107,877)	(276)
Prepaid expenses	-	48,631
Prepaid reinsurance premiums	(5,355,014)	(6,460,272)
Deferred acquisition costs	(871,718)	(508,760)
Federal income tax recoverable	(280,826)	-
Losses and loss adjustment expenses	(1,982,275)	(7,001,897)
Unearned premiums	7,412,036	7,111,768
Advanced premiums	433,518	(500,355)
Accounts payable and accrued expenses	(160,549)	41,972
Ceded reinsurance premiums payable	2,751,537	605,137
Remittances and items not allocated	91,584	-
Statutory fund payable	28,859,992	-
Federal income tax payable	(71,128)	71,128
Net cash provided by operating activities	\$ 27,756,877	\$ 1,935,440

See accompanying summary of significant accounting policies and notes to financial statements.

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies

Nature of Business	<p>Texas Windstorm Insurance Association (the "Association") was created by the Texas Legislature when it enacted Article 21.49 (the "Act"), as amended, of the Texas Insurance Code. The purpose of the Act is to provide a method whereby adequate windstorm, hail and fire insurance may be obtained in certain designated counties of the State of Texas. Presently, only windstorm and hail coverage is provided by the Association. The membership of the Association includes every property insurer authorized to write property insurance in the State of Texas, except companies that are excluded by law from writing coverages available through the Association on a state-wide basis. The Act provides that members will share in the Association's losses on a policy year basis to the extent of their percentage of participation during the policy year involved, as determined under the provisions of the Act and the Association's Plan of Operation. In the event of a net loss for any policy year, members participating in that policy year may be assessed for their share of the loss based upon their respective participation percentages.</p>
Basis of Accounting	<p>The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") that differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities.</p>
Use of Significant Estimates	<p>The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.</p>
Cash Equivalents	<p>All highly liquid investments with original maturities of three months or less are classified as cash equivalents.</p>
Premiums	<p>All policies issued by the Association have a maximum term of one year from date of issuance. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies.</p>

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies

Deferred Acquisition Costs

Acquisition costs (consisting of commissions, premium taxes and certain other underwriting costs), which both vary with and are primarily related to the production of new and renewal business, are deferred and amortized over the terms of the related policies. For the years ended December 31, 2004 and 2003, amortized deferred acquisition costs were approximately \$6.4 million and \$5.9 million, respectively.

Furniture, Equipment, Depreciation and Amortization

Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

Income Taxes

The Association accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *"Accounting for Income Taxes"*. Under this standard, deferred taxes on income are provided for those items for which the reporting period and methods for income tax purposes differ from those used for financial statement purposes using the asset and liability method. Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities.

Losses and Loss Adjustment Expenses

Loss and loss adjustment expense reserves are based upon claim estimates for (1) losses for cases reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined.

Reinsurance

In the normal course of business, the Association seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Texas Windstorm Insurance Association

Summary of Significant Accounting Policies

Advance Premiums	Premiums are generally recognized as revenue on a pro-rata basis over the policy term after the policy is issued. Those premiums received for policies not yet issued are included in advance premiums within the Association's balance sheets.
Distributions/ Assessments of Members	Distributions, if any, for each policy year require the prior approval of the Commissioner of the Texas Department of Insurance. The policy year is determined by the calendar year in which the policy term commences. Members can be assessed to the extent that the Association's Board of Directors determines that available funds are not sufficient to meet the obligations of the Association.
Long-Lived Assets – Impairment and Disposal	The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.
Fair Value of Financial Instruments	<p>The following methods and assumptions were used by the Association to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:</p> <p><i>Cash and cash equivalents:</i> The carrying values approximate estimated value.</p>
Reclassifications	Certain prior year amounts have been reclassified to conform to current year financial statement presentation.

Texas Windstorm Insurance Association

Notes to Financial Statements

1. Furniture and Equipment

Furniture and equipment consist of the following:

<i>December 31,</i>	2004	2003
Furniture and fixtures	\$ 579,869	\$ 504,421
Data processing equipment	656,978	566,845
Quote system	831,003	831,003
Leasehold improvements	336,122	336,122
	2,403,972	2,238,391
Less: accumulated depreciation and amortization	(1,795,515)	(1,195,876)
	\$ 608,457	\$ 1,042,515

Depreciation and amortization expense was approximately \$565,000 and \$556,000 for the years ended December 31, 2004 and 2003, respectively.

2. Reinsurance

During 2004 and 2003, the Association entered into two separate reinsurance agreements. The agreements limit the amount of losses that can arise from future claims, either under a general reinsurance contract known as excess of loss reinsurance agreement (“excess of loss”) or by negotiation on substantial individual risks known as excess per risk reinsurance program (“excess per risk”).

Excess of Loss. Effective June 1, 2004, the excess of loss reinsurance agreement provided the Association with four layers of coverage. The first layer provides 100% participation of \$100 million in excess of \$300 million. The second layer provides 100% participation of \$200 million in excess of \$400 million. The third layer provides 100% participation of \$300 million in excess of \$600 million. The fourth layer provides 100% participation of \$100 million in excess of \$900 million. Any additionally liability would be funded by the Trust Fund (see Note 6) or by member assessments. This agreement expires on May 31, 2005.

Texas Windstorm Insurance Association

Notes to Financial Statements

Effective June 1, 2003, the excess of loss reinsurance agreement provided the Association with three layers of coverage. The first layer provided 50% participation of \$200 million in excess of \$200 million. The second layer provided 100% participation of \$300 million in excess of \$400 million. The third layer provided 100% participation of \$100 million in excess of \$1 billion. Any additional liability would be funded by the Trust Fund (see Note 6) or by member assessments. This agreement expired on May 31, 2004.

In accordance with the terms of the reinsurance agreements, the Association paid the reinsurers net premiums of approximately \$43,350,000 and \$34,300,000 for the years ended December 31, 2004 and 2003, respectively.

Excess Per Risk. The excess per risk reinsurance agreement enables individual Association policy holders, who need limits of liability in excess of the maximum available, to purchase additional coverage up to the maximum allowed under the reinsurance agreement.

The Association paid the reinsurers approximately \$1,800,000 and \$1,334,000 for the years ended December 31, 2004 and 2003, respectively, of net premiums in connection with the excess per risk reinsurance agreement.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policy holders. Failure of reinsurers to honor their obligation could result in losses to the Association. The Association, together with the Texas Department of Insurance, evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The effect of reinsurance on premiums written and earned for the years ended December 31, 2004 and 2003 is as follows:

	2004		2003	
	Written	Earned	Written	Earned
Direct	\$ 102,384,350	\$ 94,972,314	\$ 87,987,274	\$ 80,875,506
Ceded	(47,826,001)	(42,744,987)	(35,634,258)	(29,174,000)
Net	\$ 54,558,349	\$ 52,227,327	\$ 52,353,016	\$ 51,701,506

There were no recoveries pertaining to reinsurance contracts that were deducted from losses incurred during 2004 and 2003.

3. Ceded Reinsurance Premiums Payable

Ceded Reinsurance premiums payable are reported net of reinsurance ceding commissions receivable as follows:

Texas Windstorm Insurance Association

Notes to Financial Statements

<i>December 31,</i>	2004	2003
Ceded reinsurance premiums payable	\$ 15,275,000	\$ 9,561,660
Reinsurance ceding commissions receivable	(3,700,000)	(738,197)
	\$ 11,575,000	\$ 8,823,463

4. Losses and Loss Adjustment Expense Reserves

Activity in the liability for unpaid losses and loss adjustment expense is summarized as follows:

	2004	2003
Beginning balance	\$ 6,198,692	\$ 13,200,589
Incurred related to:		
Current loss year	8,816,000	29,322,000
Prior loss years	(2,666,880)	(4,412,152)
Losses and loss adjustment expense incurred	6,149,120	24,909,848
Paid related to:		
Current loss year	(7,006,000)	(25,012,000)
Prior loss years	(1,125,395)	(6,899,745)
Paid losses and loss adjustment expense	(8,131,395)	(31,911,745)
Ending balance	\$ 4,216,417	\$ 6,198,692

5. Related Parties

Pursuant to the Association's Plan of Operation, its Board of Directors consists of nine members. Five directors are elected from the membership of the Association, two directors are appointed by the Texas Department of Insurance from the public sector based on nominations by the Office of Public Insurance Counsel and two directors, who are licensed local recording agents, are appointed by the Texas Department of Insurance. Of the five directors elected from the membership, a minimum of three members shall be from companies with multi-state operations and a minimum of one member shall be from a company domiciled in the State of Texas.

Texas Windstorm Insurance Association

Notes to Financial Statements

During 2002, the Association entered into a service contract with The Texas Fair Plan Association (the "Plan") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of the Plan. As of December 31, 2004 and 2003, the Association incurred or paid expenses for which it has not been reimbursed of approximately \$53,000 and \$84,000, respectively, on behalf of the Plan. This amount is recognized in the balance sheets as a receivable from affiliate.

6. Statutory Fund

During 1993, the Texas Legislature amended Article 21.49 of the Texas Insurance Code authorizing the creation of a Catastrophe Reserve Trust Fund ("Trust Fund") to be held by the Texas Department of Insurance ("TDI") for the purpose of allowing the Association to enter into a program with TDI in lieu of a renewal of the Association's past reinsurance arrangements. Pursuant to the statutory fund agreement with TDI, the Association terminated its retrospective reinsurance agreement. Consequently, the retrospective premium due from the reinsurer was refunded directly to the Trust Fund, with legal title to such funds reverting to TDI. In accordance with the statutory agreement, the Association shall pay the net equity of all member companies, including all premiums and other revenue of the Association in excess of incurred losses and operating expenses to the Trust Fund or a reinsurance program approved by TDI. The statutory net income excluding statutory fund cost of \$25,264,489 plus a portion of the net income of \$3,595,503 (after absorbing the 2002 deficit of \$3,610,734) for the year ended December 31, 2003 is to be transferred to the Trust Fund or used to fund a reinsurance program. As of December 31, 2004, the Association has elected to transfer these funds to the Trust Fund for the year ended December 31, 2004. The remaining members' deficit of \$86,032 can only be recouped through assessment of the members.

To administer these funds, TDI entered into a related Funds Management Agreement with the Texas State Treasurer ("Treasurer") and the State Comptroller of Public Accounts ("Comptroller") whereby the Treasurer, as custodian, will manage the funds in the Trust Fund, and the Comptroller will be responsible for the investment of such funds.

Texas Windstorm Insurance Association

Notes to Financial Statements

Under the statutory fund agreement with TDI, all monies in the Trust Fund are to be used for payment of net losses from windstorm and hail catastrophe losses in excess of \$100 million in any calendar year and/or catastrophe mitigation (see Note 2).

7. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined pension benefit plan which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 10 years from date of hire before January 1, 1989 or 5 years from date of hire after January 1, 1989. The Association makes annual contributions to the plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in other underwriting expenses.

The following sets forth a summary of assets, obligations and assumptions of the defined pension benefit plan:

<i>December 31,</i>	2004	2003
Benefit obligation	\$ (2,613,873)	\$ (2,102,500)
Fair value of plan assets	1,815,182	1,349,639
Funded status	\$ (798,691)	\$ (752,861)
Accrued benefit cost recognized in the balance sheets	\$ (370,392)	\$ (382,532)
<i>December 31,</i>	2004	2003
Weighted-average assumptions:		
Discount rate	5.75%	6.25%
Expected return on plan assets	3.25%	8.50%
Rate of compensation increase	8.50%	3.50%
<i>Years ended December 31,</i>	2004	2003
Benefit cost	\$ 222,324	\$ 185,700
Employer contributions	\$ 234,464	\$ 117,267
Benefits paid	\$ (38,243)	\$ (38,243)

Texas Windstorm Insurance Association

Notes to Financial Statements

Defined Contribution Plan. The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. The Association contributed approximately \$106,000 and \$108,000 for the years ending December 31, 2004 and 2003, respectively.

8. Line of Credit During 2004, the Association obtained a \$25 million line of credit with a bank. There were no balances outstanding or drawn against the line of credit as of and for the year ended December 31, 2004.

9. Lease Commitment In March 2003, the Association entered into an exchange of leased space agreement with lessor. The Association assumed the lease of a former tenant that expires June 30, 2005, in exchange for the release of the noncancellable operating lease that the Association had previously entered into and extended the lease until May 31, 2008.

Future minimum lease payments, by year and in the aggregate, under a noncancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2004:

<i>Year ended December 31,</i>	<i>Amount</i>
2005	\$ 279,769
2006	297,325
2007	321,677
2008	138,752
	<hr/>
	\$ 1,037,523

Rental expense totaled approximately \$313,000 and \$267,000 for the years ended December 31, 2004 and 2003, respectively.

Texas Windstorm Insurance Association

Notes to Financial Statements

10. Federal Income Taxes

The components of income tax (benefit) expense are as follows:

<i>Years ended December 31,</i>	2004	2003
Current	\$ 21,031	\$ 71,128
Deferred	(803,889)	803,889
	\$ (782,858)	\$ 875,017

The components of net deferred tax assets (liabilities) are as follows:

<i>December 31,</i>	2004	2003
Deferred tax assets:		
Loss and loss adjustment expense reserves	\$ 67,275	\$ 103,463
Unearned premiums	2,145,231	1,974,297
Advanced premiums	209,512	-
Net operating loss carryforward	617,910	944,309
AMT tax credit	90,302	71,128
Total gross deferred tax asset	3,130,230	3,093,197
Deferred tax liabilities:		
Deferred acquisition costs	2,532,365	2,227,264
Depreciation and amortization	131,136	199,118
Accrued pension liability	110,218	81,029
Other accrued liability	-	1,389,675
Total gross deferred tax liability	2,773,719	3,897,086
Net deferred tax asset (liability)	356,511	(803,889)
Less: valuation allowance	(356,511)	-
Net deferred tax asset (liability)	\$ -	\$ (803,889)

As of December 31, 2004 and 2003, the Association has a net operating loss carry forward of approximately \$1.8 million and \$2.7 million, respectively, for income tax purposes that will expire in various years through 2024.

Texas Windstorm Insurance Association

Notes to Financial Statements

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management believes that it is probable that the Association's deferred tax assets will not be realized. Accordingly, the Association recorded a valuation allowance equal to 100% of net deferred tax assets at December 31, 2004.

11. Statutory Net Income and Members' Surplus

The Association's statutory financial statements are presented on the basis of accounting practices prescribed or permitted by the Texas Department of Insurance. Texas has adopted the National Association of Insurance Commissioners' statutory accounting practices (NAIC SAP) as the basis of its statutory accounting practices, except that it has retained the prescribed practice of allowing furniture, labor-saving devices, machines, and all other office equipment to an admitted asset depreciated in full not to exceed 5 years.

In addition, the commissioner of the Texas Department of Insurance has the right to permit other specific practices that may deviate from prescribed practices. As of December 31, 2004 and 2003, the Association had no permitted practices that deviated from prescribed practices.

Had the Association non-admitted its furniture, labor-saving devices, machines, and all other office equipment, in accordance with NAIC SAP, the Association's surplus and other funds would have been \$(252,621) and \$3,317,239 at December 31, 2004 and 2003, respectively.

12. Contingencies

The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

Texas Windstorm Insurance Association

Notes to Financial Statements

13. Concentration of Credit Risk

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association underwrites insurance policies for insurable property in certain designated counties of the State of Texas. To partially mitigate this risk, the Association has entered into reinsurance contracts to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results. In addition, the Association is able to recoup unfavorable underwriting results through member assessment.

14. Fair Value of Financial Instruments

The estimated fair values and carrying values of the Association's financial instruments are as follows:

<i>December 31,</i>	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 77,803,791	\$ 77,803,791	\$ 50,178,293	\$ 50,178,293