Part III Liquidator's and Conservator's Report

This section of the Texas Department of Insurance's *131st Annual Report* presents statistical information on companies placed in supervision, conservatorship and receivership. It also contains financial information on the state's three guaranty associations: the Texas Property and Casualty Insurance Guaranty Association, Texas Life, Accident, Health and Hospital service Insurance Guaranty Association and the Texas Title Insurance Guaranty Association.

issued by the

Texas Department of Insurance

Insurance Companies in Judicial Proceedings, Supervision, Conservatorship or under Special Administrative Action by Fiscal Year

FISCAL YEAR	NUMBER AT 1ST OF YEAR	RECEIVED DURING YEAR	CEASED REINSURED DISSOLVED	BUSINESS DISSOLVED	IN RECEIVERSHIP	RELEASED TO MANAGEMENT	YEAR END BALANCES
1997	41	22	1	7	4	14	37
1998	37	15	2	3	5	7	35
1999	35	22	2	8	4	8	35
2000	35	17	3	8	2	7	32
2001	32	22	1	5	1	9	38
2002	38	18	1	3	2	9	41
2003	41	12	0	6	8	13	26
2004	26	9	1	0	3	5	26
2005	26	10	0	2	3	9	22
2006	22	9	0	1	7	8	15

Companies in Supervision at Beginning of Fiscal Year 2006

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
05-0614	07/11/05	*Confidential
05-0714	08/18/05	*Confidential
05-0715	08/18/05	*Confidential
05-0602	06/30/05	*Confidential
05-0588	06/29/05	*Confidential

**Confidential Pursuant to Texas Statute. TIC 21.28A Sec. 3a*

Companies in Conservatorship at Beginning of Fiscal Year 2006

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
05-0222	03/07/05	*Confidential
05-0221	03/07/05	AMIL International (Texas), Inc.

**Confidential Pursuant to Texas Statute. TIC 21.28A Sec. 3a*

Art. 1.32/Insurers under Special Administrative Action
at Beginning of Fiscal Year 2006

ACTION	DATED	COMPANY NAME
Art. 1.32 #98-1998	05/07/98	American Insurance Company of Texas
Art. 1.32 #03-0141	03/03/03	Coordinated Care solutions of Texas, Inc.
Letter	08/01/05	Cypress Texas Lloyds
Letter	01/13/02	Dallas General Life Insurance Company
Art. 1.32 #01-0385	04/30/01	Frontier Insurance Company
Letter	04/22/02	HHS Texas Management, L.P.
Art. 1.32 #01-0122	02/09/01	Jefferson Life Insurance Company
Letter	01/19/05	Mack H. Hannah Life Insurance Company
Art. 1.32 #98-0502	05/07/98	National Financial Insurance Company
Art. 1.32 #04-1172	12/08/04	National Health Insurance Company
Art. 1.32 #92-0903	09/16/92	Provident American Insurance Company
Letter	05/17/02	Texas Builders Insurance Company
Letter	09/22/03	Texas Fidelity Title, L.L.C.
Art. 1.32 #03-0543	06/27/03	Texas Propane Gas Association Employees Beneficiary Trust
Art. 1.32 #02-1066	10/11/02	Universal Insurance Exchange

Companies Placed in Supervision
between September 1, 2005 and August 31, 2006

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
05-0950	11/07/05	*Confidential
05-0982	11/14/05	*Confidential
06-0072	01/19/05	*Confidential

**Confidential Pursuant to Texas Statute. TIC 21.28A Sec. 3a*

Companies Placed in Conservatorship
between September 1, 2005 and August 31, 2006

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
05-0768	09/08/05	*Confidential
05-0769	09/08/05	*Confidential

**Confidential Pursuant to Texas Statute. TIC 21.28A Sec. 3a*

Art. 1.32/Insurers placed under Special Administrative Action
between September 1, 2005 and August 31, 2006

ACTION	DATED	COMPANY NAME
Letter	12/27/05	North America Life Insurance Company of Texas
Art. 1.32 #6-0014	01/05/06	ABBA Indemnity Company
Art. 1.32 #06-0234	03/06/06	AMIL International Insurance Company, Inc.
Art. 1.32	03/06/06	AMIL International (Texas), Inc.
Letter	05/18/06	Presidential Life Insurance Company
Art. 1.32 #06-0744	07/21/06	Peters Burial Association

Companies Released from Supervision
between September 1, 2005 and August 31, 2006

ORDER NUMBER	DATED	COMPANY NAME
05-1104	12/27/05	North America Life Insurance Company
05-1109	12/30/05	Texas International Life Insurance Company
06-0015	01/05/06	ABBA Indemnity
06-0412	04/28/06	Old American County Mutual Fire
06-0744	07/21/06	Peters Burial Association
D1GN06002946	08/24/06	Family Life Insurance Company of America
D1GN06002946	08/24/06	Lone Star Life Insurance Company
06-0800	07/27/06	Texas Fidelity Title

Companies Released from Conservatorship
between September 1, 2005 and August 31, 2006

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
06-0234	03/06/06	AMIL International Insurance Company, Inc.
06-0233	03/06/06	AMIL International (Texas), Inc.

Insurers Released from Art. 1.32/ Special Administrative Action
between September 1, 2005 and August 31, 2006

ORDER NUMBER	DATED	COMPANY NAME
05-0754	09/01/05	Jefferson Life Insurance Compnay
Letter	09/01/05	HHS Texas Management, L.P.
Letter	11/14/05	Texas Fidelity Title, L.L.C.
Letter	12/30/05	Cypress Texas Lloyds
06-0007	01/02/06	Texas Propane Gas Association EBT
Letter	05/10/06	Texas Builders Insurance Company
06-0554	06/07/06	Universal Insurance Exchange

Insurance Companies and Affiliates in Receivership

as of August 31, 2006

NO.	RECEIVERSHIP NAME	CAUSE NO	DISTRICT COURT
487	Employers Casualty Company	92-02133	353rd
495	United Republic Insurance Company	97-07775	126th
496	American Eagle Insurance Company	97-13405	201st
500	Comprehensive Health Services of TX. Inc.	99-01313	353rd
508	American Benefit Plans, et al	GV200903	53rd
510	Colonial Casualty Insurance Company, et al	GV202935	201st
512	AmCare Health Plans of Texas, Inc.	GV204523	200th
513	Empire Lloyds Insurance Co./ Lloyds Insurance Holding Co., Inc	GV204662	201st
514	Millers Insurance Company	GV3-00620	345th
516	Western Indemnity Insurance Company	GV302024	261st
517	Good Samaritan Life Insurance Company	GV3-02700	345th
519R	Highlands Insurance Company	GV3-04537	53rd
521	States General Life Insurance Company	GV500484	126th
522	Financial Insurance Company of America	GV500846	261st
523R	Reliant American Insurance Company	GV500016	126th
525R	Universal Insurance Exchange and Universal Paratransit Ins. Services Grp	D1GV06000119	345th
526	Vesta Fire Insurance Group	D1GN06002366	126th
527	Shelby Casualty Insurance Company	D1GN06002366	126th
528	The Shelby Insurance Company	D1GN06002366	126th
529	Texas Select Lloyds	D1GN06002366	126th
530	Select Insurance Services, Inc.	D1GN06002366	126th
531R	Vesta Insurance Corporation	D1GN06002366	126th
532	Family Life Insurance Company of America and	D1GN06002946	261st
533	Lone Star Life Insurance Company	D1GN06002946	261st

Receiverships by Fiscal Year:

New Receiverships/Receiverships Closed

FISCAL YEAR	BALANCE RECEIVERSHIPS BEGINNING	NEW RECEIVERSHIPS	RECEIVERSHIPS CLOSED
1980	52	1	4
1981	49	8	7
1982	50	11	19
1983	42	13	0
1984	55	3	3
1985	55	20	1
1986	74	19	2
1987	91	18	1
1988	108	25	2
1989	131	40	14
1990	157	33	28
1991	162	18	26
1992	154	15	36
1993	133	9	40
1994	102	7	25
1995	84	1	32
1996	53	1	17
1997	37	3	8
1998	32	6	6
1999	32	3	5
2000	30	3	9
2001	24	1	1
2002	24	3	5
2003	22	7	6
2004	23	3	5
2005	21	4	*3
2006	22	9	7

Consolidated Receiverships

Statement Net Assets August 31, 2006

Cash	
Cash - Unrestricted	126,844,487
Investments	
Short-Tem Investments	0
Bonds, Preferred Stocks & Common Stocks	541,140
Investments in Subsidiaries, Controlled or Affiliated Entities	1,433,036
Mortgage Loans	0
Real Estate	0
Policy Loans	0
Other Invested Assets	0
Reinsurance	
Reinsurance Recoverables on Paid Losses & LAE	16,260,865
Allowance for Reinsurance on Paid Losses & LAE	(14,871,525)
Reinsurance Recoverables on Unpaid Losses & LAE	0
Allowance for Reinsurance on Unpaid Losses & LAE	0
Reinsurance Recoverables on UEP & Contingent Commissions	0
Receivables	
Salvage & Subrogation Recoveries	0
Premiums Due & Accrued from Agents & Policyholders	1,460,055
Receivable from Parents, Subsidiaries & Affiliates	635,816
Accrued Investment Income	0
Receivable from Guaranty Associations - Early Access Payments	211,777,880
Other Assets	
FF&E	38,601
Prepaid Expenses	0
Other Assets	2,832,142
Restricted Assets	
Restricted - Statutory Deposits	3,785,201
Restricted - Funds held by or deposited with Reinsured Companies	0
Restricted - Separate Accounts & Protected Cell Accounts	0
Restricted - Other	12,089,445
Total Unrestricted Assets	346,952,498
Total Restricted Assets	15,874,646
Net Assets not Categorized	0
Total Assets	362,827,143
Statement of Net Liabilities	
Secured Claims	5,118,614
Special Deposit Claims	0
Administrative	
Administrative Claims - State/Receiver	0
Special Deputy Receiver, Subcontractors Fees & Expenses	954,678
Liquidation Oversight & Special Master's Fees	20,140
Unsecured Loans	0
Administrative Claims - Guaranty Assns	0
Claims Paid	59,651,979
Reserves	8,020,076
LAE - Guaranty Assns	12,380,614

Consolidated Receiverships

Statement Net Assets August 31, 2006 *(continued)*

Loss Claims	
Loss Claims - Guaranty Assns	136,507,479
Loss Claims Paid	37,169,666
Reserves	115,426,719
Loss Claims - Other	64,983,199
Loss Claims Paid	306,300
Reserves	98,139,125
LAE - Other	0
Unearned & Advance Premium Claims (Non Assessable Policies) - GA	4,152
Unearned & Advance Premium Claims (Non Assessable Policies) - Other	382,181
Unearned Premium Claims (Assessable Policies) - GA	398,046
Other Creditors	
Federal Government Claims	47,100
Employee Claims	11,367
General Unsecured Creditor Claims (Other than Reinsurance Related)	58,170,796
Ceded Reinsurance Related Unsecured Claims	29,295,012
Assumed Reinsurance Related Unsecured Claims	35,269,656
State & Local Government Claims	91,071
State & Local Governments/Attorneys	228,641
State & Local Governments - Penalties	13,224
Late Filed Claims - Unexcused	59,796
Surplus Notes	2,704,516
Unearned Premium Claims (Assessable Policies) - Other	0
Shareholder Claims	25,438,000
Other Liabilities	0
Interest	0
Other	529,198
Total Liabilities	691,321,346
Total Equity/(Deficit) Excess (Deficiency) of Assets over Liabilities	(328,494,202)
Total Liabilities & Equity	362,827,144
Income Statement	
Funds Held	
Funds Held for Others	(2,322,352)
Funds Held for Others Expense	0
Premium	0
Collections	319,577
Collection Expense	(180,127)
Receivable	0
Agents Balance Receipts	0
Agent Balance Expense	(6,489)
Reinsurance Recovery	13,668,849
Reinsurance Expense	(1,076,940)
Subrogation Recovery	237,533
Subrogation Expense	(124,775)
Intercompany Receivable Receipts	196,192
Intercompany Receivable Expenses	(141,915)
Other Receivable Receipts	3,983,607
Other Receivable Expenses	(1,222,896)
Litigation Receivable	0
D&O Litigation Recovery	644,564
D&O Litigation Expense	(278,556)
Judgment/Settlement Collections	123,470
Judgment Expense	0
Investment Account Receipts	0
Investment Account Expense	(75)
Other Litigation Receipts	8,667,772
Other Litigation Expense	(2,006,202)
Sale/Conversion of Investment Assets	0
Securities/Bonds Sales Receipts	474,100
Securities/Bonds Sales Expense	(787)
Statutory Deposit Receipts	1,208,923
Statutory Deposit Expense	(43,723)

Consolidated Receiverships

Statement Net Assets August 31, 2006 *(continued)*

Income Statement	
Funds Held	
Real Estate Sales Receipts	0
Real Estate Sales Expense	(1,466)
Mortgage Note Expense	0
Subsidiary Affiliated Receipts	1,567,026
Subsidiary Affiliated Expense	(23,708)
Other Asset Receipts	20,003
Other Asset Sales Expenses	(63,718)
Sale of Company Fixed Assets	0
Charter Sales Receipts	(2,500)
Charter Sales Expense	(856)
Furniture, Fixtures & Equipment Receipts	63,466
Furniture, Fixtures & Equipment Expense	(3,705)
Company Real Estate Receipts	0
Company Real Estate Expense	0
Other Fixed Asset Receipts	(1,791)
Other Fixed Asset Expense	0
Net Income from Assets/Receivable	*25,994,853*
Passive Income	
Investments Interest/Dividends	1,037,194
Cash Deposit Interest Income	5,176,817
Early Access Imputed Interest Income	13,023
Net Income/Including Passive	*32,221,887*
Claims Expense	
Class I Claims Administrative Expenses	
Covered Claims Expense	
G/A Expense	(3,649,164)
SDR Fees	20,136
SDR Subcontractor Fees	(63,810)
Other Covered Claims	0
Non Covered Claims Expenses	
SDR Fees	(990,480)
SDR Subcontractor Fees	(189,583)
Other Non Covered Claims	(25,416)
Claims Paid/Distribution:	
Covered Claims Funded - G/A	8,695,942
Covered Claims Paid - G/A	(8,685,536)
Early Access -G/A	(5,523,579)
Non-Covered Claims Paid/Receivership Distribution	(8,592,554)
Total Claims Expenses	*(19,004,045)*
Class I General Administrative Expenses	
Conservation/ Misc. Takeover Exp.	(21,129)
Bank/Miscellaneous Charges	(33,653)
Building/Utilities/Related Expenses	(5,645)
Contract/Employee	0
Equipment/Lease/Maintenance	(13,387)
Employee - Payroll, PRTax, Benefits	(54,312)
Inventory/Storage/Moving	(259,941)
Mailing/Printing/Postage/Publication	(46,045)
Office Supplies/Miscellaneous	(7,496)
Telephone	(5,710)
Receivership Allocation	(353,168)
Total Class I General Administration Expenses	*(800,487)*
Class I Subcontractor Administrative Expenses	
Accounting/Auditing/Fed Income Tax Services	(97,184)
Consulting Fees/Services	(13,472)
Legal Fees/Services	(616,253)
Total Class I Subcontractor Administrative Expenses	*(726,908)*
Class I SDR Administrative Expenses	
SDR Administration	(676,361)
SDR Accounting	(296,322)
SDR Special Services	(85,628)
SDR Legal Services	(18,718)
Total Class I SDR Administrative Expenses	*(1,077,028)*
Total Receivership Administrative Expense	*(2,604,422)*
Net Increas(Decrease) to Receivership Cash	10,613,420
Class 1 Payables as of 8/31/06	80,009,784
FY 2006 Reconciliation Adjustments	(21,843,628)
Cash Available as of 08/31/06 *	***126,844,487***

** Cash Available is for the payment of claims and administrative expenses of the receivership estates.*

Texas Property and Casualty Insurance Guaranty Association

Audited Financial Statements, December 31, 2005

Disclaimer: The state's three insurance guaranty associations now report receivership activity on a calendar year basis. The latest data available is for Calendar Year 2005. As a result, the data provided by the guaranty associations no longer correspond directly to data in the receivership report prepared by TDI's Liquidation Oversight. TDI's report is for the state's Fiscal Year 2006 that runs from September 1, 2005 through August 31, 2006.

Statement of Financial Position, December 31, 2005

ASSETS	2005
Current Assets	
Cash and Cash Equivalents (Notes 1 and 2)	$ 6,947,705
Investments, at Fair Value (Note 3)	389,306,680
Assessments Receivable	
Accounts Receivable - Other	5,133
Total Current Assets	396,259,518
Noncurrent Assets	
Loans Receivable (Note 5)	
Administrative	$ 21,403,812
Auto	126,096,059
Other Lines	139,774,186
Workers' Compensation	314,217,818
Total Loans Receivable	601,491,875
Allowance for Doubtful Accounts (Notes I and 5)	(601,491,875)
Net Loans Receivable	
Property and Equipment (Note 1)	
Furniture and Equipment	1,123,412
Computer Systems	1,140,732
Telephone Systems	170,791
Company Vehicles	21,641
Leasehold Improvements	294,548
Accumulated Depreciation	(1,950,941)
Net Property and Equipment	*800,183*
Total Noncurrent Assets	*800,183*
Total Assets	***$397,059,701***

The accompanying notes are an integral part of these statements.

2005Liabilities	
Current Liabilities	
Accounts Payable and Accrued Liabilities	$849,572
Outstanding Checks	2,690,120
Current Portion of Claims Payable (Note 6)	48,000,000
Total Current Liabilities	*51,539,692*
Long Term Liabilities	
Claim Liabilities (Note 6)	
Loss Adjustment Expense	17,448,854
Auto	4,732,797
Other Lines	25,875,831
Workers' Compensation	408,970,026
Total Long Term Claim Liabilities	*457,027,508*
Other Long Term Liabilities	
Early Access Distributions (Note 6)	26,818,296
Total Other Long Term Liabilities	26,818,296
Total Long Term Liabilities	483,845,804
Total Liabilities	*$535,385,496*
Net Assets, Invested in Capital Assets	800,183
Net Assets (Deficit), Unrestricted (Note 7)	(139,125,978)
Total Net Assets	*(138,325,795)*
Total Liabilities and Net Assets	*$ 397,059,701*

Texas Property and Casualty Insurance Guaranty Association

Statement of Revenues, Expenses, and Changes in Net Assets for December 31, 2005

Revenues	
Distributions	$ 26,513,296
Assessments	-
Investment Income, Net (Note 10)	7,970,341
Interest on Accounts	267,882
Subrogation and Salvage Recoveries	7,975,098
Miscellaneous Income	35,708
Total Revenues	42,762,325
Claims Activity:	
Claims Payments:	
Claims Administration	10,843,818
Auto	1,895,282
Other Lines	7,785,381
Workers' Compensation	38,361,370
Total Claims Payments	58,882,851
Change in Claims Liabilities	(13,916,082)
Total Claims Activity	44,966,769
Excess (Deficiency) of Revenues over Claims Activity and Refunds	(2,204,444)
2005 Operating Expenses:	
Employment Expenses	$4,317,298
Employee Relations	12,165
Education and Staff Development	84,150
Contract labor	3,352
Legal Fees	22,184
Audit Fees	14,500
Consulting	69,800
Leasehold Improvements	-
Office Rent and Overhead	347,481
Insurance	77,930
Furniture and Equipment	12,206
Equipment Rental	66,313
Computer Systems	835,704
Telephone	40,539
Office Supplies	56,392
Postage and Delivery	239,711
Printing	17,815
Advertising – Employee Procurement	5
Travel	38,169
Professional Meetings	42,718
Reference Materials	15,712
Subscriptions and Professional Dues	94,717
Property Taxes	8,958
Bank Charges	56,568
Depreciation Expense	143,929
Total Operating Expenses	6,618,316
Increase (Decrease) in Net Assets	(8,822,760)
Gain (Loss) on Sale of Property and Equipment	
Beginning Net Assets (Deficit) at January I	(129,503,035)
Net Assets (Deficit) at December 31	$(138,325,795)

Texas Property and Casualty Insurance Guaranty Association

Statement of Cash Flows for the Years Ended December 31, 2005

Cash Flows from Operating Activities	
Decrease in Net Assets	$ (8,822,760)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities	
Depreciation Expense	143,929
Unrealized Gains (Losses) on Investments	6,804,944
Change in Assets and Liabilities	
(Increase) Decrease in Assessments Receivable	-
(Increase) Decrease in Other Assets	(3,944)
Increase (Decrease) in Claims liabilities	(13,916,082)
Increase (Decrease) in Other liabilities	(1,839,746)
Total Adjustments	(8,810,899)
Net Cash (Used) Provided by Operating Activities	17,633,659
Cash Flows from Investing Activities	
Capital Expenditures	(209,422)
Sale of Property and Equipment-	
Gain (Loss) on Sale of Property and Equipment	
Purchase of Investments	(602,084,673)
Proceeds from Sales and Maturities of Investments	607,605,319
Net Cash (Used) Provided by Investing Activities	5,311,224
Net Increase (Decrease) in Cash and Cash Equivalents	(12,322,435)
Cash and Cash Equivalents at January 1	19,270,140
Cash and Cash Equivalents at December 31 (Note 2)	$6,947,705

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

Notes to Financial Statements December 31, 2005

1 Summary of Significant Accounting Policies

Organization - Texas Property and Casualty Insurance Guaranty Association (the Association) is a nonprofit organization formed under the Texas Property and Casualty Insurance Guaranty Act (the Act) to protect holders of covered claims, contracts of reinsurance, assumption of liabilities or otherwise.

The Association is considered a governmental not-for-profit organization and is a component unit of the State of Texas for financial reporting purposes. The accompanying financial statements comply with the reporting requirements of a governmental not-for-profit organization.

Membership in the Association is mandatory for any insurance company authorized in Texas to transact any kind of insurance business to which the Act applies. Membership assessments are made by the Board of Directors of the Association based on estimates of amounts necessary to provide funds to carry out the purposes of the Act with respect to impaired insurers. Any amount in excess of guaranty obligations and continuing expenses of the Association may be refunded by an equitable method at the discretion of the Board of Directors.

Basis of Accounting - The financial statements are presented on the accrual basis of accounting; consequently, revenue is recognized when earned, and expenses are recognized when the obligations are incurred. Assessment revenue is recognized when billed. Claims liability is recognized using estimates of claims outstanding for each impaired insurer at the date of impairment.

Tax Exempt Status - The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. The Association is also exempt from payment of all fees and taxes levied by the state of Texas or any of its subdivisions, except taxes levied on real and personal property.

Notes to Financial Statements December 31, 2005

Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments to be cash equivalents. This includes checking account balances and mutual fund investments.

Investments - Investments are carried at fair value.

Derivatives - Mortgage-backed Pass-through Securities are used to enhance the Association's investment rate of return and are recorded at market value. The Association's involvement in derivatives is limited with the level of investment not to exceed 30% of the portfolio. The balance of derivatives at December 31, 2005 represented 21.1% of the portfolio's fair value.

Furniture Equipment and Leasehold Improvements - Fixed assets are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the individual assets, ranging from five to ten years.

Allowances for Uncollectible Loans - The Association fully reserves for all such loans; therefore, loan repayments are recorded as revenue when received in cash.

2 Cash and Cash Equivalents

Cash and cash equivalents at December 31, consisted of the following

	2005
Cash in Bank	$ 315,602
Cash on Hand	300
Mutual Funds	6,631,803
	$6,947,705

The Association’s mutual fund investments are not insured by the Federal Deposit Insurance Corporation nor are they a deposit or other obligation of, or guaranteed by a bank or other depository institution. Mutual fund investing is subject to investment risks, including possible loss of the principal amount invested.

At December 31, 2005 the Association maintained demand accounts with bank balances in excess of federally insured limits of $268,774. The carrying value of these demand accounts, resulting from uncollected items and outstanding checks, was $315,602 in 2005.

3 Investments

The Association’s investment policy sets guidelines and parameters through which investment managers have full discretion. Securities must have maturity dates within ten years of the date of purchase, with the exception of Mortgage-backed Pass-through Securities. The following securities and investment transactions are acceptable for investment if they meet the restrictions set forth in the Investment Policy:

a Direct security repurchase agreements (underlying security must be U.S. Treasury securities);
b Reverse security repurchase agreements (underlying security must be U.S. Treasury securities);
c Direct obligations of or obligations where the principal and interest of which are guaranteed by the United States;
d Direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government;
e Bankers’ acceptances that:
- are eligible for purchase by the Federal Reserve System;
- do not exceed 270 days to maturity; and
- are issued by a bank that has received the highest short term credit rating by a nationally recognized investment rating firm;

f Commercial paper that:
- does not exceed 270 days to maturity; and
- has received the highest short term credit rating by a nationally recognized investment rating firm;

g Direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest credit rating by a nationally recognized investment rating firm;

h Direct obligations of a state or an agency, county, city, or other political subdivision of a state (the municipal securities shall be rated A or better on long term debt and A-1 or SP-1 for short term maturity assets or the equivalent by a nationally recognized rating service). Investments shall be limited to no more than 1% investment in any one single issuer's debt.

i Mutual funds which invest only in direct obligations of a state or an agency, county, city or other political subdivision of a state (no M.U.D.s allowed);

j Bank certificates of deposit; must be purchased from domestic and foreign banking institutions with U.S. branches (“Yankee CDs”) that have ratings similar to those used for purchasing commercial paper and bankers' acceptances. Investments shall be limited to no greater than 10% of an individual bank's total capital, surplus and undivided profits.

k Mutual funds which invest only in investments described in some or all of the items (A) through (J) above.

l Mortgage-backed Pass-through Securities must be AAA rated by Standard & Poor's or Moody's and have prepayment assumptions of ten years or less if they have price liquidity characteristics documentably similar to ten year or shorter investments. The total aggregate of Mortgage-backed Pass-through Securities cannot exceed 30% of the manager's total portfolio. Inverse floaters are not allowed. Investments are limited to GNMA, FNMA or FHLMC obligations.

m Security lending is authorized through the investment custodian, but the collateral accepted must meet the following guidelines: a) collateral is maintained at a minimum level of 102% of market value or greater; b) the collateral is valued daily to assure the required collateral level; c) the collateral is held by the Association or its third party custodian; and d) collateral is always cash, U.S. government securities or U.S. government agency or instrumentality securities. Securities lending activities must be governed by a Master Agreement.

Investments at December 31, were as follows:

2005	FAIR VALUE	% OF FAIR VALUE
U.S. Treasury Issues	$155,212,059	39.9%
Federal Agency Issues	119,514,307	30.7%
Municipal/Provincial Bonds	24,622,953	6.3%
Mortgage-backed Pass-through Securities (Derivatives)	82,206,836	21.1%
Cash Equivalents	4,822,763	1.2%
Accrued Interest	2,927,762,	.8%
Total at December 31, 2004	***$389,306,680***	***100.0%***

The following methods and assumptions were used to estimate the fair value of each class of investment:

Short Term Promissory Notes, Outside Managed Treasury Mutual Funds and Accrued Interest: The cost of these investments approximates fair value because of the short maturity of those instruments.

U.S. Treasury Bills, Notes, Government Agency Bonds, U.S. Government Agency Discount Notes, Government National Mortgage Association, African Development Bank and Asian Development Bank. The fair values of debt securities are based on quoted market prices at the reporting date for those investments.

Mortgage-backed Pass-through Securities (Derivatives): The fair value of these investments is estimated by obtaining quotes from brokers.

Notes to Financial Statements December 31, 2005

Analysis of Specific Deposit and Investment Risks:

GASB Statement NO. 40 requires a determination as to whether the Association was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Association's investments were rated as noted above.

b Custodial Credit Risk
Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution's trust department or agent but not in the Association's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Association's name. At year end, the Association was not exposed to custodial credit risk.

c Concentration of Credit Risk
This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the Association's investments representing more than 5% of total investments are disclosed above.

d Interest Rate Risk
This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the Association does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

e Foreign Currency Risk
This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the Association was not exposed to foreign currency risk.

4 Membership Assessments

The Association is authorized by the Texas Insurance Code, Annotated Article 21.28-C, Section 18 to assess member insurers in amounts necessary to pay both claims and administrative expenses of the Association.

Annual assessment ability is estimated below using the most recent premium information available (2004):

LINE-OF-BUSINESS	PREMIUM BASE	ASSESSMENT CAPABILITY
Automobile	$13,392,004,554	$ 267,840,091
Other Lines	11,124,066,892	222,481,338
Workers' Compensation	4,773,927,842	95,478,557
	$29,289,999,288	***$ 585,799,986***

In the event of a natural disaster or other catastrophic event, the Association may apply to the Governor for authority to assess each member insurer that writes insurance coverage other than motor vehicle coverage or workers' compensation coverage, an additional amount not to exceed 2% of the insurer's net direct written premium for the preceding calendar year.

5 Loans Receivable

Loans receivable consist of advances to and claims payments made and expenses paid on behalf of impaired insurers. An allowance is made for these loans in total; therefore, these loans are expensed when made. Any repayments of the loans are recorded as revenue when received in cash.

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2005

6 Claims Liability

The liability for claims payable is an estimated amount for all impaired companies. No provision is made for repayments or recoveries; such recoveries are recognized when received in cash. Early access distributions are recorded as long term liabilities until those estates are closed.

7 Net Assets

The Association has the authority to assess members as necessary in subsequent years to meet its responsibility to pay claims of these impaired companies. Assessment ability and recorded claims liability at December 31, 2005, are as follows:

LINE-OF-BUSINESS	CLAIMS PAYABLE	ANNUAL ASSESSMENT CAPABILITY
Automobile	$ 4,732,797	$ 267,840,091
Other Lines	25,875,831	222,481,338
Workers' Compensation	408,970,026	95,478,557
Loss Adjustment Expenses	17,448,854	No Limit
Total	***457,027,508***	
Current	48,000,000	
Long Term	$505,027,508	

As mentioned in Note 4, the Association, in the event of a natural disaster or other catastrophic event, may have additional assessment capability.

Assessments are made annually based on annual cash flow needs to meet claims liabilities as paid in cash. No provision has been made for recoveries from company assets to meet these obligations.

8 Commitments and Contingencies

The Association leases certain office space. This lease expires in November 2014. The Association is obligated for the following minimum lease payments:

MINIMUM LEASE PAYMENT	
2006	394,420
2007	394,420
2008	394,420
2009	394,420
2010	394,420
2011	394,420
2012	394,420
2013	394,420
2014	361,552
	$3,516,912

The Association, by its nature, is subject to various ongoing claims by insurance companies, policyholders, receiverships and creditors of the receiverships. Some of these claims are in the form of litigation against the Association.

9 Significant Group Concentrations of Risk

Most of the Association's business activity, assessment revenue and advances are with concerns in the insurance industry in the state of Texas. At year end, all of the Association's advances receivable are from companies that are operating or have operated in Texas.

The Association, as described in Note 2, has a significant concentration of credit risk arising from cash deposits in excess of federally insured limits.

Notes to Financial Statements December 31, 2005

10 Investment Income

Gross earnings for 2005 were $17,436,828 (including $3,300,971 in realized gains and security lending income of $261,045), net of realized losses of $2,257,474, unrealized losses of $6,804,945, custodian fees of $27,919, and investment manager's fees of $376,149, resulting in net investment income of $7,970,341. Gross earnings for 2004 were $15,751,597 (including $3,076,546 in realized gains and security lending income of $263,065), net of realized losses of $3,543,156, unrealized losses of $2,178,021, custodian fees of $22,287, and investment manager's fees of $381,592, resulting in net investment income of $9,626,541.

11 Deferred Compensation Plan

The Association has established a defined contribution retirement plan (the plan) (a "profit sharing" plan under IRS Section 401(a) Plan). The plan is open to all employees. The employer made a discretionary contribution of 3% of all employees' compensation for the plan year. The employer will make a "matching contribution" to the plan on behalf of the employees in the amount of 100% of the employees' elective deferral, up to 3% of total compensation for the plan year. The employee may make discretionary before tax contribution to the plan not to exceed Internal Revenue Service limitations. The Association's contribution for the year ended December 31, 2005, was $199,840. The employees contributed $251,989 for 2005. The employees are fully vested in their own contributions to the plan and become vested in the employer contributions to the plan as follows based on years of service: 1 year - 20%; 2 years - 40%; 3 years - 60%; 4 years - 80%; and 5 years -100%.

12 Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

13 Risk Management

The Association is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2005, the Association contracted with insurance carriers for property and general liability insurance.

Property coverage and computer system coverage both carry a $1,000 deductible. Comprehensive general liability carries no deductible while excess liability coverage has a retained limit of $5,000. Auto physical damage has deductibles of $100 for comprehensive coverage and $250 for collision. No insurance settlements exceeded coverage in the past three years relating to Association activities

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Audited Financial Statements, December 31, 2005

Disclaimer: The state's three insurance guaranty associations now report receivership activity on a calendar year basis. The latest data available is for Calendar Year 2005. As a result, the data provided by the guaranty associations no longer corresponds directly to data in the receivership report prepared by TDI's Liquidation Oversight. TDI's report is for the state's Fiscal Year 2006 that runs from September 1, 2005 through August 31, 2006.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Statement of Net Assets, December 31, 2005

Assets	**2005**
Current assets	
Cash and cash equivalents	$ 73,227,054
Investments	20,000
Receivables	
Billed assessments, net of allowance of $681,182	5,631,378
Other receivables	5,940
Proofs of claim, net of allowance of $311,157,199	7,952,399
Total current assets	86,836,771
Noncurrent assets	
Unbilled assessments	62,860,060
Capital assets, net	33,173
Total noncurrent assets	62,893,233
Total assets	$ 149,730,004
Liabilities and Net Assets	
Current liabilities	
Accounts payable	$237,268
Accrued expenses	245,059
Estate funds payable	664,666
Current portion of insurance contractual obligations	17,261,436
Total current liabilities	18,408,429
Noncurrent liabilities	
Insurance contractual obligations	105,752,254
Total liabilities	***124,160,683***
Net assets	
Invested in capital assets	33,173
Unrestricted	25,536,148
Total net assets	*25,569,321*
Total liabilities and net assets	***$ 149,730,004***

See accompanying notes to financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets, December 31, 2005

Operating revenues	
Membership assessments	
Billed assessments	$22,493,770
Change in unbilled assessments	(21,212,418)
Net Membership assessments	1,281,352
Estate recoveries and early access distributions	1,003,130
Change in proofs of claim, net of allowance	4,779,092
Premiums	1,463,790
Total operating revenues	*8,527,364*
Operating Expenses	
Claims	
Change in insurance contractual obligations	(46,786,591)
Refund of prior years' assessments	4,403,951
Claims paid	47,194,791
Assumption reinsurance agreements	5,497,532
Third-party administrators	280,660
National task forces	836,925
	11,427,268

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Statement of Revenues, Expenses, and Changes in Net Assets, December 31, 2005 *(continued)*

Operating Expenses *(continued)*	
Administrative costs	
Legal and professional	346,733
Salaries and benefit costs	531,290
Building and equipment lease costs	87,579
Depreciation	14,342
National organization dues and meetings	59,958
Other	115,423
Total administrative costs	1,155,325
Total operating expenses	*12,582,593*
Operating income (loss)	*(4,055,229)*
Non-operating revenues	
Interest income (net of interest exp)	2,203,640
Net nonoperating revenues	2,203,640
Change in net assets	(1,851,589)
Net assets, beginning of year	27,420,910
Net assets, end of year	$25,569,321

Statement of Cash Flow, December 31, 2005

Cash flows from operating activities	**2005**
Receipts from assessments	$16,932,800
Receipts from estate recoveries	1,004,130
Receipts from premiums	1,463,790
Payments for assumption reinsurance agreements	(5,497,532)
Payments for direct claims	(47,194,790)
Payments to suppliers for goods and services	(1,655,570)
Payments to employees	(531,290)
Assessment refunds applied	(8,844,829)
Net cash provided by (used in) operating activities	(44,323,291)
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,590)
Net cash used in capital and related financing activities	(1,590)
Cash flows from investing activities	
Redemption of long-term bond investment	
Receipt of interest on investments	2,203,640
Net cash provided by investing activities	2,203,640
Net increase (decrease) in cash and cash equivalents	(42,121,241)
Cash and cash equivalents - beginning of year	115,348,295
Cash and cash equivalents - end of year	73,227,054
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	$(4,055,229)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	14,342
Write-off stock investment	1,000
Unbilled assessments	21,212,418
Change in assets and liabilities	
Billed assessments receivable, net of allowance	(5,560,970)
Other receivables	148,491
Proofs of claim, net of allowance	(4,779,092)
Accounts payable	(126,328)
Accrued expenses	197,852
Estate funds payable	(4,589,184)
Insurance contractual obligations	(46,786,591)
Net cash provided by (used in) operating activities	$(44,323,291)

See accompanying notes to financial statements.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 31, 2005

1 Nature of Operations and Reporting Entity

The Life, Accident, Health and Hospital Service Insurance Guaranty Association (the Association) was created by the Texas Life, Accident, Health and Hospital Service Insurance Guaranty Act (the Act) and privatized by the Texas Legislature in 1992. The Association was created to protect, subject to certain limitations, persons specified in the Act against failure in the performance of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer who issued the policy or contract. To provide this protection, this association of insurers was created to pay benefits and to continue coverage as limited in the Act.

Membership in the Association is mandatory for any insurance company authorized in Texas to transact any kind of insurance business to which the Act applies. Membership assessments are made by the Board of Directors of the Association based on estimates of amounts necessary to provide funds to carry out the purposes of the Act with respect to impaired insurers. Any amount in excess of statutory obligations and continuing expenses of the Association may be refunded by an equitable method at the discretion of the Board of Directors or retained to provide funds for the continuing expenses of the Association.

Pursuant to the Act, the Association is governed by a nine member Board of Directors appointed by the Commissioner of Insurance. Five members of the Board must be chosen from industry member companies, three from the fifty member companies. Four of the Directors must be representatives of the general public. Board members serve six year terms and are eligible to succeed themselves in office through reappointment.

The Association is considered to be a primary government according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity. The Association is not considered to be a component unit of any other governmental entity, and there are no component units for which the Association is considered financially accountable under GASB Statement No. 14.

The Association is reported as a special-purpose government engaged in business-type activities. The significant accounting policies followed by the Association in preparing these financial statements basically conform to generally accepted accounting principles applicable to government units. The Association applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

2 Summary of Significant Accounting Policies

a Basis of Accounting

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, except for premium income which is recognized when collected due to the immaterial amount of premiums to be earned. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred. Operating revenues and expenses generally result from providing services in connection with the Association's principal ongoing operations, as described in Note 1. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Assessment revenue (billed and unbilled) is recognized when insurance contractual obligations are incurred. Claim liabilities are recognized using estimates of contractual obligations for each impaired insurer at the date of impairment or issuance of an order of liquidation based on a finding of insolvency by a court of competent jurisdiction. Projected claim liabilities are reviewed and revised periodically as information related to the obligations of the individual insolvent member companies is obtained.

b Tax Exempt Status

The Association is exempt from federal income taxes under Section 501(c) (6) of the Internal Revenue Code. The Association is also exempt from payment of all fees and taxes levied by the state of Texas or any of its subdivisions, except taxes levied on real and personal property.

2 Summary of Significant Accounting Policies *(continued)*

c Cash Equivalents

For purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

d Investments

Funds of the Association may be invested in bonds, notes or securities or other evidences of indebtedness of the United States that are supported by the full faith and credit of the United States or that are guaranteed as to principal and interest by the United States. Purchases of investment securities are made with the intent to hold -such securities to maturity. Investments are recorded at market value.

e Allowances for Uncollectible Proofs of Claim Receivable,

Allowances for uncollectible proofs of claim are estate specific. The allowance for each estate is based on evaluations of estate financial statements and records, reports from estate receivers, and information from other third parties.

Uncollected proofs of claim are written off by the Board of Directors only after an estate is closed in both the domestic and ancillary state and there is no reasonable expectation that any additional funds will be recovered from the estate or other third party.

f Furniture and Equipment

Furniture and equipment are stated at cost. The Association capitalizes furniture and equipment with estimated useful lives greater than one year and an acquisition cost greater than $500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally five years.

g Net Assets

The net assets reflected in the financial statements of the Association are deemed to be unrestricted. Estate specific net assets may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association.

h Premium Revenue

Premiums received from a policyholder for coverage, after an order of receivership is entered, belong to the Association. Due to the immaterial amount of premiums to be collected, revenue is recognized as the premiums are received by the Association, both for direct bill and premiums collected by third-party agents.

i Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

3 Deposits and Investments

The Association's deposits and investments as of December 31, 2005 are as follows:

Cash and cash equivalents	
Cash on deposits	$1,653,778
Chase money market mutual funds	71,573,276
Total cash and cash equivalents	73,227,054
Investments	
Bonds – American Integrity	$20,000

3 Deposits and Investments *(continued)*

Custodial Risk. Cash and cash equivalents consist of bank demand deposits and money market investment accounts. The Association's carrying amount of bank demand deposits at December 31, 2005 was $1,653,778 and the total bank balances equaled $1,499,422. The deposits are insured up to a maximum of $100,000 by the Federal Deposit Insurance Corporation. Excess funds are swept into overnight investments which are backed by the full faith and credit of the United States.

Credit Risk. Money market investments at December 31, 2005 were $71,573,276. These mutual fund portfolios are comprised of U.S. government obligations backed by the full faith and credit of the United States and repurchase agreements backed by such instruments. These mutual fund investments are not insured by the Federal Deposit Insurance Corporation nor are they a deposit of, other obligation of, or guaranteed by a bank or other depository institution. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Interest rate risk. These bonds were distributed to the Association from an insolvent estate as part of a distribution. There are 4 bonds at 5,000 each that mature in August 0f 2006. They are carried at face amount. The Association's intent is to hold the bonds to maturity.

4 Membership Assessments

The Association is authorized by the Texas Insurance Code, Annotated Article 21.28-D, Section 9 to assess member insurers in amounts necessary to pay both contractual claim obligations and administrative expenses of the Association. There are two classes of assessments: Class A, which may be levied to meet administrative costs; and Class B, which may be levied to meet the contractual obligations associated with specific insolvent or impaired insurers.

The amount of Class A assessments is prorated to individual member insurers, taking into consideration annual premium receipts reflected in the annual statements for the year preceding the assessment year for individual member insurers. No Class A assessments have been levied since 1992.

The amount of each Class B Assessment is allocated to each member insurer based on their line-of-business premiums (life, accident and health, and annuity), in the same proportion that the premiums were received by the insolvent or impaired insurer for all covered policies during the year preceding impairment.

The total of all Class B assessments levied against a member insurer for each line-of business may not exceed one percent of the member insurer's premiums on the policies covered by the line-of-business in any one calendar year, which is defined as the most recent year for which assessable premium data is available.

Class B assessment revenue for 2005 was $22,493,770. The assessment levied in 2005 was for two insolvent companies. The Association collected approximately 75.3% of the 2005 Class B assessment through the end of the year.

The Association may refund to member insurers, in proportion to the contribution of each member insurer, the amount by which accumulated assets exceed the amount necessary to meet its obligations with regard to a particular insolvent insurance company. The Association, through a credit applied against each member insurers' 2005 Class B assessment refunded to the member insurers $4,403,951.

Billed assessments receivable as of December 31, 2005 were $6,312,559. These unpaid assessments were levied in years 1991 through 2005. An allowance for uncollectible billed assessments in the amount of $681,182 has been recorded as of December 31, 2005.

Unbilled assessments receivable of $62,860,060 at December 31, 2005 represent the statutory ability of the Association to assess member insurers as required to meet corresponding insurance contractual obligations. This amount may be billed in future periods as necessary to fund estate liabilities.

5 Proofs of Claim

The Association files proofs of claim against individual receivership estates to recover claims, claims handling costs, and administrative expenses incurred by the Association related to the estate. These proofs of claim may be amended and are updated and filed periodically as additional costs are incurred and paid by the Association. At December 31, 2005 proofs of claim receivable on open estates (before an allowance) were $319,109,548.

An allowance related to the collectibility of proofs of claim is recorded based on estate specific evaluations of net assets held by the receiver and other potential recoveries. The amounts to be received by the Association in early access distributions or final distributions are often not readily determinable; therefore, recoveries due to the Association are necessarily estimates and subject to change as the estates are closed out. Based on the Association's estate specific review, the allowances for uncollectible proofs of claim as of December 31, 2005 were $311,157,149.

6 Capital Assets

Capital asset activity for the year ended December 31, 2005 was as follows:

2005	BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	END OF YEAR
Capital assets, being depreciated				
Furniture and equipment	$71,712	$1,590		$73,302
Less: accumulated depreciation	($25,787)	($14,342)	0	($40,129)
	$45,925	***($12,752)***	***0***	***$33,173***

Depreciation expense for 2005 was $14,342.

7 Interaccount Loans and Borrowings

The Board of Directors of the Association has adopted a resolution that allows for short-term loans from the account of one estate to another estate. Interest is paid by the borrowing estate to the estate making the short-term loan at a rate which approximates that earned on short-term government securities. For the years ended December 31, 2005, the following transactions occurred, which are not reflected in the financial statements since they relate to activity within the Association:

2005	BEGINNING OF YEAR	ADDITIONS	REPAYMENTS	END OF YEAR
Interaccount loans	$ 140,332	8,465,789	(207,180)	8,398,941
Interaccount borrowings	$ (140,332)	(8,465,789))	(207,180)	(8,398,941))

Interest of $85,276 was charged on these loans for the years ended December 31, 2005. The interest expense was charged to the individual estates an d not on the Association financial statements.

8 Insurance Contractual Obligations

The liability for insurance contractual obligations is an estimated amount of future cash payments for all impaired or court-ordered insolvent estates. The amounts are necessarily based on estimates, and the ultimate liability may vary significantly from the estimate. In addition, the liability is based on information supplied principally by third parties such as receivers, third-party administrators and member participation task forces. As of December 31, 2005 activity in the insurance contractual obligations was as follows:

	BEGINNING OF YEAR	END ADDITIONS	CURRENT REDUCTIONS	OF YEAR	PORTION
Year ended December 31, 2006	$ 169,800,281	3,721,000	50,507,591	123,013,690	17,261,436

8 Insurance Contractual Obligations

One open estate, Executive Life, comprised approximately 66% of the insurance contractual obligations at December 31, 2005. The obligations related to the Executive Life estate are based on estimated cash flow projections to be paid through 2088 to the insurance company which acquired the business. Annually, a calculation of the amount which could be paid to settle the future funding obligation is performed by the company which acquired the business. This calculation is based on procedures and formulas laid out in an. enhancement (purchase) agreement. The calculation resulted in -a settlement calculation of approximately $54,182,477 as of December 31, 2005, respectively. The settlement calculation does not include certain guaranteed issue contracts with future cash flows of approximately $4,771,042 as of December 31, 2005.

Revisions to estimates of the insurance contractual obligations are reflected in the statements of revenues, expenses and changes in net assets as "changes in insurance contractual obligations."

9 Net Assets

As of December 31, 2005, net assets reflected in the financial statements of the Association consisted of the following:

Unrestricted net assets	**2005**
Association's continuing administrative expenses	$ 11,869,725
Insolvent estates	13,666,423
	25,536,148
Invested in capital assets	33,173
Total net assets	***$ 25,569,321***

10 Operating Leases

The Association leases its office facility under a non-cancelable operating lease that expires in September 2010. The Association also has several noncancelable operating leases for equipment and machinery that expire during the next five years. Lease expense charged to operations for the years ended December 31, 2005 amounted to $87,579.

Future annual minimum lease payments under noncancelable operating leases for each of the years subsequent to December 31, 2005 are as follows: 2006, $86,996; 2007, $86,996; 2008, $80,933; 2009, $92,224; 2010, $69,168.

11 Employee Benefit Plan

During 2003, the Association began sponsoring a safe harbor defined contribution retirement plan, Tx. L.A.H.H.S.LG.A 401(k) Plan (the Plan), covering substantially all of its employees. Employees are generally eligible to participate in the Plan after completing six months of service and attaining the age of 21. Employees may contribute to the Plan, through elective deferrals of salary up to an annual maximum as set by law. Further, the Association may make a safe harbor matching contribution equal to 100% of employee elective deferrals of salary that do not exceed 3% of annual compensation, plus 50% of elective salary deferrals between 3% and 5% of annual compensation, in order to maintain safe harbor status. The Association may also make additional employer matching contributions and discretionary profit-sharing contributions as determined annually.

Employees become fully vested in the Plan after completing five years of service. Provisions of the Plan and contribution requirements may be amended at any time by the Plan administrator.

Contributions to the Plan for 2005 by the Association totaled $14,647 and employee contributions totaled $42,709.

Notes to Financial Statements December 31, 2005 *(continued)*

12 Risk Management

The Association carries commercial insurance as protection from exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in insurance and no insurance claims were filed during 2005.

13 Commitments and Contingencies

A liquidator or special deputy receiver for the estate of an insolvent insurer may, as assets become available, make disbursements out of marshaled assets to a guaranty association(s) having claims against the estate of the insolvent insurer prior to a distribution to other creditors or the closing of the estate. The liquidator or special deputy receiver prior to such disbursement shall also secure from each guaranty association entitled to disbursements an agreement to return to the liquidator upon request and with court approval such assets, together with income on assets previously disbursed as may be required. As of December 31, 2005, the Association has received approximately $132 million subject to such agreements since its inception.

The Association, by its nature, is subject to various ongoing claims by insurance companies, policyholders, receiverships and creditors of the receiverships. Some of these claims are in the form of litigation against the Association. It is the opinion of management that any losses which may be sustained would not be material to the Association and, in all foreseeable instances; the Association would have the statutory authority to assess member insurance companies for any losses sustained.

Texas Title Insurance Guaranty Association

Statement of Net Assets December 31, 2005

Assets	**2005**
Cash and cash equivalents	$857,098
Investments	1,241,223
Assessment receivable	351,234
Other assets	-
Total assets	2,449,555
Liabilities and Net Assets	
Liabilities	
Accrued expenses	85,171
Total liabilities	85,171
Net assets	
Unrestricted	858,985
Restricted	1,505,399
Total net assets	2,364,384
Total liabilities and net assets	***$ 2,449,555***

See accompanying notes to the financial statements.

Texas Title Insurance Guaranty Association

Statement of Revenues, Expenses and Changes in Net Assets Year Ended December 31, 2005

Operating revenues 2005	
Investment income	$38,908
Guaranty Fees	1,467,898
Restitution	0
Unrealized gain on investments	5,625
Total operating revenues	*1,512,431*
Operating expenses	
Examiners	927,133
Professional services	67,634
Board meeting expenses	1,560
Insurance	0
Property taxes	0
Bank charges	1,047
Supplies	101
Total operating expenses	*997,475*
Operating revenues over expenses	514,956
Non Operating Expenses	
Refund of title assessment funds	317,996
Loss on sale of land	6,311
Total operating expenses	*324,307*
Changes in net assets	190,649
Net assets at beginning of year	2,173,735
Net assets at end of year	***$2,364,384***

See accompanying notes to the financial statements.

Statement of Cash Flows Year Ended December 31, 2005

Cash flows from operating activities	**2005**
Receipts of investment income	$38,907
Receipts from restitution	0
Receipts from guaranty fees	1,449,804
Payments to examiners	(928,057)
Payments to professionals	(71,297)
Payments to board members	(1,815)
Payments to vendors	(2,056)
Net cashprovided by operating activities	485,486
Cash flows from noncapital financing activities	
Cash flows from capital and related financing activities	
Proceeds from sale of land	12,802
Refund of title assessment	(317,996)
Net cash used in capital and related financing activities	(305,194)
Cash flows from investing activities	
Purchase of investments	(3,909,042)
Sale of investments	4,019,756
Net cash provided by (used in) investing activities	110,714
Net increase (decrease) in cash and cash equivalents	291,006
Cash and cash equivalents at beginning of year	566,092
Cash and cash equivalents at end of year	$ 857,098

Statement of Cash Flows Year Ended December 31, 2005 *(continued)*

Reconciliation of changes in net assets to net cash provided by operating activities	
Operating revenues over expenses	$ 514,956
Adjustments to reconcile operating revenues over expenses to net cash provided by operating activities:	
Net increase in the fair market of investments	(5,625)
Changes in assets and liabilities	
Increase in guaranty fee receivable	(18,094)
(Decrease) in accrued expenses	(5,751)
Net cash provided by operating activities	$ 485,486

See accompanying notes to the financial statements.

Notes to the Financial Statement December 31, 2005

1 Summary of Significant Accounting Policies

a Reporting Entity

The Texas Title Insurance Guaranty Association (the "Association") is a nonprofit organization formed under the Texas Title Insurance Act (the "Act") to protect holders of covered claims as defined by the Act through payment of claims, contracts of reinsurance, assumption of liabilities or otherwise.

Membership in the Association is mandatory for any insurance company authorized in Texas to transact any kind of insurance business to which the Act applies. Title guaranty fees may be collected based on a fixed fee applied to each title insurance policy written in the State of Texas. The fee is to provide funds for title examinations under the supervision of the Commissioner of Insurance and pay covered claims with respect to impaired agents.

b Basis of Accounting

The Association meets the definition of a governmental not-for-profit entity as set forth in the AICPA Audit and Accounting Guide, Audits of State and Local Governmental Units. The financial statements of the Association are prepared on the basis of an enterprise fund as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Enterprise funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Assessment revenue is recognized when claims liability is incurred. Claims liability is recognized using estimates of claims outstanding for each impaired insurer at the date of impairment. The Association has elected not to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, which is an alternative allowed by GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting.

c Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers money market accounts and mutual funds, certificates of deposit, and investments with purchased maturities of three months or less to be cash equivalents.

Notes to the Financial Statement December 31, 2005 *(continued)*

d Investments

Investments are reported at fair value based upon quoted market prices, with the change in fair value of investments captioned as investment income and interest income reported at the relevant stated interest rate. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

e Guaranty Fees

The Association implemented a Guaranty Fee pursuant to Article 9.48, Section 6 (a) and (b) of the Texas Insurance Code effective January 1, 2004. The Guaranty Fee is $1.00 per title owner policy and mortgagee title policy issued. Assessments may be levied on individual insurers to pay covered claims arising from impaired underwriters.

f Recoupment Fees

Recoupment fees may be collected by the Association based on a fee set by the Commissioner of Insurance. The recoupment fees are used to reimburse member companies, on a pro rata basis, for a portion of the assessment paid. All assessments have been fully recovered.

g Taxes

The Authority is a not-for-profit governmental entity, which is exempt from federal income taxes under the provisions of the Internal Revenue Code. As such, no provision for federal income taxes has been provided in the accompanying financial statements. The Association is exempt from payment of all fees and taxes levied by the State of Texas or any of its subdivisions except taxes levied on real property.

h Restricted Assets

The Association's assets are restricted by virtue of the Act. The Association has approximately $858,985 of unrestricted net assets at December 31, 2005.

i Classification of operating and nonoperating revenue and expenses

The Association defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating revenues include interest on investments, fee assessments and other revenues related to guaranty operations. Operating expenses include contractual services and other expenses (such as examinations, insurance and professional fees). Revenues and expenses not fitting the above definitions are considered nonoperating.

j Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

2 Deposits and Investments

The Association's deposit and investment as of December 31, 2005 are as follows:

Cash and cash equivalents	**2005**
Cash on deposit	66,656
Money market mutual funds	790,442
Total cash and cash equivalents	857,098
Investments	
U.S. Treasury Bills	$1,241,233

Custodial Risk. The Association's bank balances totaled approximately $73,168 as of December 31, 2005. The Association's cash management practice includes deposit transfers to and from money market mutual fund accounts with the remainder covered by FDIC insurance. Occasionally, the timing of deposit receipt results in end-of-day bank balances exceeding the FDIC insurance levels.

Credit Risk. The Association is authorized to invest funds in mutual funds or direct obligations of or obligations where the principal and interest of which are guaranteed by the U.S. Government; mutual funds or direct obligations of or obligations guaranteed by agencies or instrumentalities of the U.S. Government; as well as, subject to certain restrictions, direct obligations of a state or an agency, county, city or other political subdivision of a state other than a municipal utility district, bankers acceptances, commercial paper, and mutual funds. In The Association's investments are insured by the Securities Investor Protection Corporation for up to $500,000 and/ or held by the Association or its agent and listing the Association as owner.

Interest Rate Risk. The Association's investments as of December 31, 2005 are in U.S. Treasury Bills. These investments are typically short-term (due within one year) and have a relatively low level of investment rate risk

3 Commitments and Contingencies

The Association, by its nature, is subject to various ongoing claims by insurance companies, policy holders, receiverships and creditors of the receiverships. Some of these claims may result in litigation against the Association. At December 31, 2005, no such litigation was in process.

The Association is responsible for covered claims by Texas title policy holders against insurance companies that are unable to meet their policy claims. The Association performs periodic assessments of the insurance companies that issue title policies in the State of Texas to determine the Association's exposure to such claims. At December 31, 2004, the Association has no significant exposure to such claims.

4 Significant Group Concentrations of Risk

The majority of the Association's business activity, assessment revenue and advances are with concerns in the title insurance industry in the State of Texas.