Part III

Liquidator's and Conservator's Report

This section of the *126th 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**

Summary of Supervisions:
September 1, 2000–August 31, 2001

	EXISTING	NEW	FY2001 YEAR-END BALANCES
Domestic			
Stock Life	3	0	0
Stipulated Premium			
Surplus Lines Insurers			
Local Mutual Aid Associations			
Fire and/or Casualty	0	3	2
Lloyds			
Title			
Title Agent	1	3	2
Unauthorized Insurers			
Managing General Agents	0	1	0
Local Recording Agent			
Reciprocal			
Fraternal			
Third Party Administrator	1	5	5
Health Maintenance Organization	0	1	1
Premium Finance Company	0	0	0
Utilization Review Agent	0	1	1
Foreign	0	1	0
Totals	***5***	***15***	***11***

Summary of Conservatorships:
September 1, 2000–August 31, 2001

	EXISTING	NEW	FY2001 YEAR-END BALANCES
Domestic			
Stock Life			
Stipulated Premium			
Surplus Lines Insurers			
Managing General Agents			
Fire and/or Casualty	0	1	1
Lloyds			
Title			
Unauthorized Insurers			
Title Agents			
Agencies			
Burial			
Fraternal			
Local Recording Agents			
Health Maintenance Organization			
Foreign			
Totals	***0***	***1***	***1***

Summary of Insurers under Court-Directed/Special Administrative Action:
September 1, 2000–August 31, 2001

	EXISTING	NEW	FY2001 YEAR-END BALANCES
Domestic			
Stock Life	6	4	7
Stipulated Premium			
Fire and/or Casualty	8	6	10

Continued on page 72

Summary of Insurers under Court-Directed/Special Administrative Action:

September 1, 2000–August 31, 2001 *(continued)*

	EXISTING	NEW	FY2001 YEAR-END BALANCES
Domestic			
Lloyds	3	0	2
Burial	1	0	0
Title	0	1	1
Premium Finance Company	0	1	1
Reciprocal	1	0	1
Title Agent			
Agency			
Local Recording Agent			
Managing General Agent	2	0	0
Local Mutual Aid			
Health Maintenance Organization	4	2	3
Foreign	1	1	1
Totals	***26***	***15***	***26***

Insurance Companies in Supervision, Conservatorship or under Court-Directed/Special Administrative Action by Fiscal Year

FY	NUMBER AT 1ST OF YEAR	NUMBER RECEIVED DURING YEAR	REINSURED DISSOLVED	CEASED BUSINESS DISSOLVED	IN RECEIVERSHIP	RELEASED TO MANAGEMENT	OTHER CHANGES	YEAR-END BALANCES
1995	34	32	2	4	1	11	6	42
1996	42	26	1	5	1	9	11	41
1997	41	36	1	7	4	14	14	37
1998	37	31	2	3	5	7	16	35
1999	35	30	2	8	4	8	8	35
2000	35	28	3	8	2	7	11	32
2001	32	30	1	5	1	9	8	38

Note: *FY 2001/Other Changes: 1 entity moved from Supervision to Conservatorship; 2 entities moved from Supervision to Administrative Oversight; 1 entity moved from Conservatorship to Article 1.32; and 4 entities moved from Administrative Oversight to Supervision.*

Companies in Supervision at Beginning of Fiscal Year 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-0400	04-10-00	Confidential*
00-0538	05-17-00	Confidential*
00-0674	06-12-00	Confidential*
00-0969	08-16-00	Confidential*
00-1008	08-31-00	IPA Management Associates, L. P.

** Confidential pursuant to Texas Statute*

Companies in Conservatorship at Beginning of Fiscal Year 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-0941	08-08-00	Confidential*

** Confidential pursuant to Texas Statute*

Art. 1.32/Insurers under Court-Directed/Special Administrative Action at Beginning of Fiscal Year 2001

ACTION	DATED	COMPANY NAME
Amended Agreement	04-01-91	Commodore Claim Service
Art. 1.32/92-0903	09-16-92	Provident American Ins. Co.
Agreement Letter	01-13-95	Special Lloyds Ins. Co.
Letter	11-02-95	Bankers Life Ins. Co. of America
Art. 1.32/96-0402	04-11-96	Commercial Indemnity Insurance Co.
Letter	03-12-97	Universal Insurance Exchange
Letter	06-24-97	Empire Lloyds Ins. Co.
Letter	08-26-97	Unistar Ins. Co./International Surety & Casualty
Art. 1.32/98-0518	05-07-98	American Insurance Company of Texas
Art. 1.32/98-0520	05-07-98	National Financial Ins. Co.
Art. 1.32/98-0692	06-15-98	N. A. of Texas, Inc.
Letter	02-23-99	MNM-1997, Inc,/Dorsey Dental
Letter	03-22-99	Mack H. Hannah Life Ins. Co.
Agreement Letter	07-16-99	Highlands Insurance Co.
Agreement Letter	07-16-99	Highlands Underwriters Insurance Co.
Agreement Letter	07-16-99	Highlands Casualty Company
Agreement Letter	07-16-99	Aberdeen Insurance Company
Agreement Letter	07-16-99	Highland Lloyd
Letter	08-18-99	AECC Total Vision Health Plan
Letter	08-24-99	People Funeral Service Insurance Co.
Letter	09-14-99	Universal Health Plan, Inc.
Art. 1.32/99-1438	10-18-99	U.S. Fidelity Insurance Service Co.
Letter	01-13-00	Dallas General Life Insurance Co.
Letter	01-25-00	Certus HealthCare, L.L.C.
Art. 1.32/00-0490	05-04-00	Superior Pacific Casualty Co.
Letter	08-23-00	Western Indemnity Insurance Co.
Letter	08-28-00	Petrosurance Casualty Co.

Companies Placed in Supervision Between September 1, 2000 and August 31, 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-1208	11-02-00	Esprit General Agency, Inc.
01-0233	03-19-01	Confidential*
01-0253	03-21-01	AMCORP Insurance Co.
01-0266	03-26-01	Confidential*
01-0291	04-03-01	WellCare Health Plans of Texas, L.L.C.
01-0462	05-21-01	Confidential*
01-0476	05-29-01	Confidential*
01-0477	05-29-01	Confidential*
01-0616	07-02-01	Medical Select Management
01-0617	07-02-01	Medical Pathways Mgmt.–TX, Inc.
01-0684	07-19-01	Heritage Administrators, Inc.
01-0685	07-19-01	Heritage Southwest Medical Gr., P.A.
01-0759	08-13-01	Confidential*
01-0770	08-15-01	QualityCare Network of Texas, Ltd.
01-0771	08-15-01	North American Medical Mgmt.–San Antonio, L.P.

** Confidential pursuant to Texas Statute*

Companies Placed in Conservatorship between September 1, 2000 and August 31, 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
01-0529	06-11-01	Confidential*

** Confidential pursuant to Texas Statute*

Insurers under Court-Directed/Special Administrative Action between September 1, 2000 and August 31, 2001

ACTION	DATED	COMPANY NAME
Letter	11-07-00	Harris Methodist Health Insurance Co.
Letter	11-01-00	Frio County Abstract Co.
Letter	11-27-00	Presidential Life Insurance Co.
Letter	12-19-00	Millers Insurance Co.
Agreement Letter	12-22-00	Great Midwest Life Insurance Co.
Art. 1.32/01-0122	02-09-01	Jefferson Life Insurance Co.
Agreement Letter	04-20-01	Northern National Casualty Co.
Agreement Letter	04-20-01	Northern National Insurance Co.
Agreement Letter	04-20-01	Pacificare of Texas, Inc.
Amended Agreement	04-20-01	Highlands Insurance Co.
Amended Agreement	04-20-01	Highlands Underwriters Insurance Co.
Amended Agreement	04-20-01	Highlands Casualty Co.
Amended Agreement	04-20-01	Aberdeen Insurance Co.
Amended Agreement	04-20-01	Highlands Lloyds
Art. 1.32/01-0385	04-30-01	Frontier Insurance Co.
Letter	06-07-01	Reliant American Insurance Co.
Letter	06-20-01	Universal Acceptance Co., Inc.
Agreement Letter	08-15-01	MethodistCare, Inc.

Companies Released from Supervision between September 1, 2000 and August 31, 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-1139	10-05-00	Medical Community Insurance Co.
00-1139	10-05-00	Benefit Life Insurance Co.
01-0187	03-02-01	IPA Management Associates, L. P.
01-0344	04-19-01	Esprit General Agency, Inc.
01-0781	08-16-01	Reunion Title
01-0834	08-31-01	AMCORP Insurance Co.

Companies Released from Conservatorship between September 1, 2000 and August 31, 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-0000	00-00-00	n/a

Insurers Released from Court-Directed/Special Administrative Action between September 1, 2000 and August 31, 2001

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
Art. 1.32/00-1127	09-29-00	Superior Pacific Casualty Co.
Agreement Letter	09-29-00	Commodore Claims Service
Art. 1.32/00-1345	12-18-00	N. A. of Texas, Inc.
Letter	02-15-01	AECC Total Vision
Letter	02-22-01	Harris Methodist Health Insurance Co.
Letter	02-26-01	MNM-1997, Inc./Dorsey Dental
Letter	07-16-01	Great Midwest Life Insurance Co.
Letter	08-03-01	Peoples Funeral Service Insurance Co.
Letter	08-15-01	Bankers Life Insurance Co. of America
Art. 1.32/01-0804	08-28-01	U. S. Fidelity Insurance Services
Agreement Letter	08-28-01	Specialty Lloyds Insurance Co.

Insurance Companies and Affiliates in Receivership as of August 31, 2001

NO.	RECEIVERSHIP NAME	CAUSE NO.	DISTRICT COURT
375	First Service Life Insurance Company	454,774	53rd
442	Commodore Life Insurance Company(Reopened)	490,005	201st
447	American Guardian Ins. Underwriters Lloyds, et al	492,413	53rd
450	Texas Employers Ins. Association	91-1681	201st
461C	Sir Lloyd's Insurance Company	91-12765	200th
462C	Standard Financial Indemnity Corp.	91-12766	201st
465	Comco Insurance Company	91-14077	345th
473C	Members Mutual Insurance Company	92-10489	299th
485C	Eagle Insurance Company	93-12483	250th
487C	Employers Casualty Company	92-02133	353rd
489C	Employers of Texas Lloyd's, et al	94-00949	353rd
490C	Employers National Insurance Company	94-00950	53rd
492C	International Lloyds Insurance Company	96-02960	126th
495C	United Republic Insurance Company	97-07775	126th
496C	American Eagle Insurance Company	97-13405	201st
498C	Gulf Atlantic Life Insurance Company	97-12317	126th
499C	Professional Benefits Insurance Company	98-04500	201st
500C	Comprehensive Health Services of TX., Inc.	99-01313	353rd
501C	Legal Security Life Insurance Company	99-03277	98th
503C	The Statesman National Life Insurance Co.	99-02772	250th
504C	Unistar Insurance Company	GV000639	390th
505C	Bankers Commercial Life Insurance Co.	GV000750	353rd
506C	Medical Community Insurance Company	GV002304	353rd
507C	Benefit Life Insurance Company	GV002510	353rd

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

As of August 31, 2001: 24 Active Receiverships

* *These numbers reflect that two receiverships that had previously closed, Gibson National Life Insurance Company and Commodore Life Insurance company, were reopened.*

† *Not included in this number was one third party administrator that was placed in receivership.*

Consolidated Receiverships

Balance Sheet

	08/31/2001	08/31/2000
Cash Assets		
Operating Account	$2,437,109	$3,346,485
Texas Treasury Account	152,587,057	148,422,515
Court Approved Deposits	620,044	4,004,024
Early Access/Texas GA	285,293,786	282,984,254
Early Access/Other GAs	93,088,084	80,475,154
Assets/for Recovery		
Funds Restricted	(449,860)	(1,499,716)
Premiums	33,753,450	49,422,724
Agent Balances	606,124	3,083,561
Reinsurance	36,932,486	52,116,180
Subrogation	7,516,588	9,767,086
Other	43,759,929	44,260,374
Allowance for Recovery	(51,915,221)	(73,217,545)
Stocks/Bonds	11,205,674	10,114,769
Real Estate	163,723	13,424
Mortgages/Notes	493,010	387,999
Other	21,290,674	22,573,378
Allowance for Recovery	(22,790,101)	(19,268,864)
Furniture & Fixtures	386,210	134,475
Computers/Software	7,000	3,000
Home Office Building	9,569	1,780,000
Allowance for Recovery	(347,095)	0
Total Assets	***614,648,240***	***618,903,275***
Company Liabilities		
Class I Reserves–G/A	6,135,307	11,142,825
Class II Claims Reserves–G/A	483,974,281	562,908,125
Class II Claims Reserves–Non-G/A	100,424,985	144,365,809
Other Liabilities	89,638,074	76,064,678
Class I Creditors		
SDR Fees	482,311	458,157
SDR Sub-Contractors	271,546	339,090
Receivers Allocation	34,974	60,244
GA–Claims Expense	60,079,173	68,959,049
Other Class I	4,161,839	4,534,351
Class II Creditors		
Policyholder Claims	70,357,417	87,448,183
GA–Policyholder Claims Paid	461,594,455	452,976,664
Other Class II	14,731,663	31,096,909
Class III Creditors		
IRS Payable	1,516,826	512,812
General Creditors	6,145,348	10,888,652
Reinsurance Payable	39,931,074	41,437,292
Other Class III	66,371,958	67,880,245
Class IV Creditors		
Surplus Debentures	0	0
Ownership Interests	1,010,863	0
Other Class IV	2,214,621	1,853,812
Total Company Liabilities	1,409,076,714	1,562,926,898
Accumulated (Loss) Equity	(784,460,781)	(937,641,978)
Unrealized Recovery	(9,967,692)	(6,381,645)
Total Liabilities and Equity	***614,648,241***	***618,903,275***

Consolidated Receiverships

Statement of Receipts and Expenditures

	08/31/2001	08/31/2000
Funds Held		
Funds Held for Others	8,114,150	0
Funds Held for Others Expense	0	0

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Statement of Receipts and Expenditures

	08/31/2001	08/31/2000
Premium		
Collections	1,346,095	4,912,879
Collection Expense	(486,716)	(735,982)
Litigation Expense	(201,437)	(187,565)
Receivable		
Agents Balance Receipts	14,290	92,649
Agents Balance Expense	(9,542)	(33,522)
Reinsurance Recovery	10,755,778	4,741,334
Reinsurance Expense	(979,847)	(1,895,486)
Subrogation Recovery	947,221	1,758,508
Subrogation Expense	(187,086)	(588,285)
Intercompany Receivable Receipts	2,820	65,256
Intercompany Receivable Expenses	0	(1,883)
Other Receivable Receipts	195,612	1,216,875
Other Receivable Expenses	(55,987)	(44,104)
Litigation Receivable		
D & O Litigation Recovery	3,750,000	0
D & O Litigation Expense	(1,760,589)	(183,421)
Judgment/Settlement Collections	2,412	88
Judgment/Settlement Expense	(2,788)	0
Investment Account Receipts	193	6
Investment Account Expense	(260)	0
Other Litigation Receipts	0	0
Other Litigation Expense	(482,757)	(365,002)
Sale/Conversion of Investment Assets		
Securities/Bonds Sales Receipts	508,211	1,060,473
Securities/Bonds Sales Expense	(14,577)	(15,550)
Statutory Deposit Receipts	1,490,833	1,191,513
Statutory Deposit Expense	(32,388)	(22,381)
Real Estate Sales Receipts	1,998,303	46,351
Real Estate Sales Expense	(165,499)	(33,830)
Mortgage Note Expense	(259)	(401)
Subsidiary Affiliate Receipts	2,764,343	944,702
Subsidiary Affiliate Expense	(16,284)	(22,488)
Other Assets Receipts	935,061	70,444
Other Assets Sales Expense	(117,567)	(131,825)
Sale of Company Fixed Assets		
Charter Sales Receipts	50,000	3,000
Charter Sales Expense	(5,220)	(2,245)
Furniture, Fixtures & Equipment Receipts	158,176	81,598
Furniture, Fixtures & Equipment Expense	(2,343)	(4,696)
Company Real Estate Receipts	0	0
Company Real Estate Expense	(3,684)	0
Other Fixed Asset Receipts	2,826	1,893
Other Fixed Asset Expense	0	(700)
Net Income from Assets/Receivable	***28,511,494***	***11,918,203***
Passive Income		
Investments Interest/Dividends	133,677	145,162
Cash Deposit Interest Income	8,711,363	8,298,019
Early Access Imputed Interest Income	1,109,837	1,696,087
Net Income/Including Passive	***38,466,371***	***22,057,471***
Claims Expenses:		
Covered Claims Expense		
G/A Expense	(2,543,158)	(4,833,035)
SDR Fees	(568,262)	(674,341)
SDR Subcontractor Fees	(220,791)	(129,690)
Other Covered Claims	(1,057,491)	(66,999)
Non Covered Claims Expenses		
SDR Fees	(898,842)	(844,813)
SDR Subcontractor Fees	(352,833)	(364,160)
Other Non Covered Claims	(28,021)	(25,235)

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Consolidated Receiverships

Statement of Receipts and Expenditures

	08/31/2001	08/31/2000
Claims Paid/Distribution:		
Covered Claims Funded–G/A	15,409,743	25,256,798
Covered Claims Paid–G/A	(14,841,948)	(24,720,239)
Early Access–G/A	(24,299)	(16,025,166)
Non-Covered Claims Paid/Receivership Distribution	(13,827,472)	(20,217,541)
Total Claims Expenses	***(18,953,374)***	***(42,644,420)***
Class I General Administration Expenses		
Liquidation Division Expense	(453,901)	(11,091)
Bank/Miscellaneous Charges	(44,994)	(41,072)
Building/Utilities	(317,717)	(360,228)
Contract/Employee	(89,905)	(228,515)
Equipment/Lease/Maintenance	(485,058)	(358,756)
Employee–Payroll, PRTax, Benefits	(25,471)	(76,105)
Equipment Lease/Inventory/Storage/Moving	(869,097)	(281,071)
Mailing/Printing/Postage/Publication	(46,049)	(65,576)
Office Supplies/Miscellaneous	(41,817)	23,410
Telephone	(26,345)	(27,428)
Receivership Allocation	(626,351)	(826,549)
Class I General Administration Expenses	***(3,026,705)***	***(2,252,980)***
Class I Subcontractor Administration Expenses		
Accounting/Auditing/Federal Income Tax Service	(70,155)	(102,372)
Consulting Fees/Services	(157,640)	(103,201)
Legal Fees/Services	(231,768)	(186,041)
Class I SDR Admin. Expenses		
SDR Administration	(1,158,133)	(891,435)
SDR Accounting	(437,237)	(442,196)
SDR Special Services	(814,611)	(290,101)
SDR Legal Services	(108,153)	(139,393)
Total Receivership Administrative Expense	***(6,004,403)***	***(4,407,718)***
Net Increase (Decrease) to Receivership Cash	**13,508,594**	**(24,994,668)**
FY 2001 Reconciliation Adjustments	(5,520,415)	313,995
Cash Available as of 8/31/01	***154,792,005***	***155,774,124***

Texas Property and Casualty Insurance Guaranty Association

Audited Financial Statements, December 31, 1999 and December 31, 2000

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 2000. 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 2001 that runs from September 1, 2000 through August 31, 2001.

Statement of Financial Position, December 31

	2000	1999
Assets		
Cash and Cash Equivalents (Notes 1 and 2)	$6,260,529	$7,405,757
Investments, at Fair Value (Note 3)	348,198,727	320,478,597
Accounts Receivable–Other	124,322	128,524
Assessments Receivable	ø	ø
Loans Receivable (Note 5):		
Administrative	$22,798,625	$40,285,394
Auto	115,350,580	115,355,290
Other Lines	74,870,849	73,162,437
Workers' Compensation	175,780,037	155,730,788
Total Loans Receivable	388,800,091	384,533,909
Allowance for Doubtful Accounts (Notes 1 and 5)	(388,800,091)	(384,533,909)
Net Loans Receivable	**ø**	**ø**

Continued on page 79

Statement of Financial Position, December 31

	2000	1999
Property and Equipment (Note 1):		
Furniture and Equipment	649,916	648,616
Computer Systems	1,218,931	1,223,491
Telephone Systems	167,778	167,778
Company Vehicle	30,732	16,319
Leasehold Improvements	81,191	81,191
Accumulated Depreciation	(1,599,979)	(1,464,925)
Net Property and Equipment	***548,569***	***672,470***
Total Assets	***$355,132,147***	***$ 328,685,348***
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$256,620	$413,380
Employee Health Claims	30,556	7,505
Outstanding Checks	1,495,211	1,910,992
Current Portion of Claims Payable (Note 6)	21,000,000	29,000,000
Total Current Liabilities	*22,782,387*	*31,331,877*
Long-term Liabilities:		
Claim Liabilities (Note 6):		
Loss Adjustment Expense	12,829,692	22,722,854
Auto	582,143	1,620,821
Other Lines	12,809,566	18,494,324
Workers' Compensation	270,143,446	274,107,365
Total Long-term Claim Liabilities	*296,364,847*	*316,945,364*
Other Long Term Liabilities:		
Early Access Distribution (Note 6)	29,427,946	28,185,807
Total Other Long Term Liabilities	*29,427,946*	*28,185,807*
Total Liabilites	***$348,575,180***	***$376,463,048***
Net Assets (Deficit), Permanently Restricted (Note 7)	6,556,967	(47,777,700)
Total Liabilites and Net Assets	***$355,132,147***	***$328,685,348***

Statement of Activities and Changes in Net Assets For the Year Ended December 31

	2000	1999
Revenues:		
Distributions	$18,414,948	$37,217,993
Assessments	ø	(237,357)
Investment Income, Net (Note 10)	32,359,425	1,662,976
Interest on Accounts	480,776	580,235
Subrogation and Salvage Recoveries	251,500	504,036
Miscellaneous Income	18,540	13,254
Total Revenues	***51,525,189***	***39,741,137***
Claims Activity:		
Claims Payments:		
Claims Administration	2,437,804	6,577,170
Auto	664,910	1,348,355
Other Lines	3,221,427	8,584,057
Workers' Compensation	14,451,560	16,092,466
Total Claims Payments	20,775,701	32,602,048
Change in Claims Liabilities	(27,760,192)	(41,217,701)
Total Claims Activity	***(6,984,491)***	***(8,615,653)***
Excess (Deficiency) of Revenues over Claims Activity and Refunds	$58,509,680	$48,356,790

Continued on page 80

Statement of Activities and Changes in Net Assets For the Year Ended December 31

	2000	1999
Operating Expenses:		
Employment Expenses	$2,629,040	$2,901,098
Employee Relations	6,807	7,014
Education and Staff Development	48,027	42,954
Contract Labor	7,934	780
Legal Fees	27,335	39,650
Audit Fees	14,500	14,850
Consulting	24,604	52,625
Leasehold Improvements	1,233	650
Office Rent and Overhead	526,166	482,347
Insurance	70,103	67,717
Furniture & Equipment	1,182	2,537
Equipment Rental	44,231	51,763
Computer Systems	359,095	366,289
Telephone	49,340	77,348
Office Supplies	23,390	30,434
Postage & Delivery	36,109	49,290
Printing	5,026	5,800
Travel	37,335	38,020
Professional Meetings	17,235	28,281
Reference Materials	14,711	12,615
Subscriptions & Professional Dues	65,160	59,785
Property Taxes	15,847	16,125
Bank Charges	264	360
Depreciation Expense	149,019	186,561
Total Operating Expenses	***4,173,693***	***4,534,893***
Increase (Decrease) in Net Assets	54,335,987	43,821,897
Losses on Sale of Property and Equipment	(1,320)	ø
Beginning Net Assets (Deficit) at January 1	(47,777,700)	(91,599,597)
Net Assets (Deficit) at December 31	***$6,556,967***	***$(47,777,700)***

Statement of Cash Flows for the Year Ended December 31

	2000	1999
Cash flows from Operating Activities:		
Decrease in Net Assets	$54,335,987	$43,821,897
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	149,019	186,561
Unrealized Gains (Losses) on Investments	(14,411,134)	10,830,144
Change in Assets and Liabilities:		
(Increase) Decrease in Assessments Receivable	ø	12,000,000
(Increase) Decrease in Other Assets	4,202	4,089
Increase (Decrease) in Claims Liabilities	(27,760,192)	(41,217,701)
Increase (Decrease) in Other Liabilities	(11,031)	(517,252)
Total Adjustments	***(42,029,136)***	***(18,714,159)***
Net Cash (Used) Provided by Operating Activities	12,306,851	25,107,738
Cash flows from Investing Activities:		
Capital Expenditures	(14,404)	(38,445)
Sale of Property and Equipment	(10,714)	ø
Losses on Sale of Property and Equipment	(1,320)	ø
Purchase of Investments	(308,717,628)	(840,346,399)
Proceeds from Sales and Maturity of Investments	295,291,987	805,593,440
Net Cash (Used) Provided by Investing Activities	(13,452,079)	(34,791,404)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,145,228)	(9,683,666)
Cash and Cash Equivalents at January 1	7,405,757	17,089,423
Cash and Cash Equivalents at December 31 (Note 2)	***$6,260,529***	***$7,405,757***

The accompanying notes are an integral part of these financial statements

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.

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.

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 20% of the portfolio. The balance of derivatives at December 31, 2000 and 1999 represented 14.0% and 16.0%, respectively 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:

	2000	1999
Cash in Bank	$2,833,505	$651,099
Commercial Paper	0	1,985,463
Mutual Funds	3,427,024	4,769,195
	$6,260,529	***$7,405,757***

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, 1999, the Association maintained demand accounts with bank balances in excess of federally insured limits of $1,095,563. The carrying value of these demand accounts, resulting from uncollected items and outstanding checks, was $2,833,205 in 2000 and $650,799 in 1999.

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 Mortgagee-backed Pass-through Securities cannot exceed 20% of the manager's total portfolio. Inverse floaters are not allowed. Investments are limited to GNMA, FNMA or FHLMC obligations, although investments in FHLMC obligations are limited to the lesser of $5 million or 5% of the total portfolio of the Association.

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:

2000	FAIR VALUE	% OF FAIR VALUE
Commercial Paper	$806,901	0.2%
U. S. Treasury Issues	130,345,487	37.4%
Federal Agency Issues	159,600,434	45.9%
Mortgage-backed Pass-through Securities (Derivatives)	48,778,413	14.0%
Cash Equivalents	1,801,839	0.5%
Short Term Notes and Bonds	2,524,340	0.7%
Accrued Interest	4,341,313	1.3%
Total at December 31, 2000	***$348,198,727***	***100.0%***

1999	FAIR VALUE	% OF FAIR VALUE
Commercial Paper	$6,655,807	2.1%
U. S. Treasury Issues	148,752,042	46.4%
Federal Agency Issues	88,623,149	27.7%
Mortgage-backed Pass-through Securities (Derivatives)	51,241,651	16.0%
Cash Equivalents	13,873,811	4.3%
Short Term Notes and Bonds	8,007,762	2.5%
Accrued Interest	3,324,375	1.0%
Total at December 31, 1999	***$ 320,478,597***	***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.

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 (1999):

LINE-OF-BUSINESS	PREMIUM BASE	ASSESSMENT CAPABILITY
Automobile	$9,506,247,277	$190,124,946
Other Lines	6,795,340,835	135,906,817
Workers' Compensation	2,858,737,687	57,174,754
	$19,160,325,799	***$383,206,517***

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.

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 Permanently Restricted Net Assets (Deficit)

As a result of recording estimates of claims payable at the date of impairment, the Association has a deficit in net assets of $47,777,700 at December 31, 1999. 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, 2000, are as follows:

LINE-OF-BUSINESS	CLAIMS PAYABLE	ANNUAL ASSESSMENT CAPABILITY
Automobile	$582,143	$190,124,946
Other Lines	12,809,566	135,906,817
Workers' Compensation	270,143,446	57,174,754
Loss Adjustment Expenses	12,829,692	No Limit
Total	296,364,847	
Current	21,000,000	
Long Term	$317,364,847	

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.

All assets are considered permanently restricted under the Act creating the Association.

8 Commitments and Contingencies

The Association leases certain office space. This lease expires in November, 2004. The Association is obligated for the following minimum lease payments:

MINIMUM	LEASE PAYMENT
2001	$515,569
2002	525,581
2003	526,188
2004	488,458
	$2,055,796

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.

10 Investment Income

Investment income is reported net of realized losses on investment sales, custodian fees and investment manager's fees realized throughout the year. Gross earnings for 2000 were $35,320,073 (including $14,411,134 in unrealized gains, $811,327 in realized gains and security lending income of $321,435), net of realized losses of $2,603,308, custodian fees of $22,470, and investment manager's fees of $334,870, resulting in net investment income of $32,359,425. Gross earnings for 1999 were $11,494,865 (including $10,830,144 in unrealized gains, $5,370,697 in realized gains and security lending income of $255,216), net of realized losses of $9,476,461, custodian fees of $21,932, and investment manager's fees of $333,496, resulting in net investment income of $1,662,976.

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 years ended December 31, 2000 and 1999, were $124,524 and $133,655, respectively. The employees contributed $157,663 and $163,930 for 2000 and 1999 respectively. 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 generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Audited Financial Statements, December 31, 1999 and December 31, 2000

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 2000. 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 2001 that runs from September 1, 2000 through August 31, 2001.

Statements of Financial Position, December 31, 2000 and 1999

	2000	1999
Assets		
Cash and Cash Equivalents (Note 2)	$90,087,535	$96,520,665
Investments (Note 3)	26,000	26,000
Receivables:		
Billed Assessments, Net of Allowance of $1,721,434 and $1,713,616 (Note 4):	419,560	1,253,219
Premiums Receivable	7,434,041	ø
Inter-account Loans (Note 6)	18,148,698	13,337,429
Other Receivables	25,210	43,376
Unbilled Assessments (Note 4)	101,047,600	86,112,73
Proofs of Claim, Net of Allowance of $299,649,788 and $299,790,628 (Note 5)	3,676,311	7,265,500
Lawsuit Settlement	ø	543,765
Total Assets	***$220,864,955***	***$205,102,688***
Liabilities and Net Assets		
Liabilities:		
Accounts Payable	$757,506	$412,697
Accrued Expenses	1,674,178	387,307
Inter-account Borrowings (Note 6)	18,148,698	13,337,429
Refunds Payable	7,234,523	11,884,404
Insurance Contractual Obligations (Note 7)	158,041,533	146,923,266
Total Liabilities	***185,856,438***	***172,945,103***
Net Assets: (Note 9)		
Permanently Restricted	35,008,517	32,157,585
Total Liabilities and Net Assets	***$220,864,955***	***$205,102,688***

Statements of Activities and Changes in Net Assets for the Years Ended December 31, 2000 and 1999

Revenues		
Assessments (Note 4)	$16,549,759	$15,231,151
Changes in Unbilled Assessments	14,934,866	(18,714,167)
Recoveries from Estates, Net of Claims Filed and Change in the Allowance of $3,593,770 and $19,782,445	3,510,116	(575,445)
Interest	6,476,481	4,861,853
Premiums	10,196,727	1,302,921
Other	42,102	73,293
Total Revenues	***51,710,051***	***2,179,606***
Expenses		
Claims:		
Changes in Insurance Contractual Obligations (Note 7)	11,118,267	(24,625,076)
Claims Paid	19,860,749	4,388,433
Assumptive Reinsurance Agreements	5,123,308	18,068,785
Third Party Administrators	2,303,383	246,628
Interest	965,921	591,172
National Task Forces	1,183,808	714,078
	40,555,436	(615,980)
Refunds of Prior Years' Assessments (Note 4)	6,525,997	18,790,117
Administrative Costs:		
Legal and Professional	228,188	157,770
Management Service Contract	1,260,000	1,149,000
Other	289,498	185,326
	1,777,686	1,492,096
Total Expenses	***48,859,119***	***19,666,233***

Statements of Activities and Changes in Net Assets for the Years Ended December 31, 2000 and 1999

	2000	1999
Change in Net Assets	2,850,932	(17,486,627)
Net Assets–Beginning of Year	32,157,585	49,644,212
Net Assets–End of Year	$35,008,517	$32,157,585

Statement of Cash Flows For the Year Ended December 31, 2000 and 1999

	2000	1999
Cash Flows from Operating Activities:		
Change in Net Assets	$2,850,932	(17,486,627)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Allowance for Billed Assessment Receivable	7,818	(149,546)
Allowance for Uncollectible Proofs of Claim	(140,840)	25,950,866
(Increase) Decrease in Assets:		
Billed Assessments Receivable	825,841	(566,608)
Premiums Receivable	(7,434,041)	ø
Lawsuit Settlement Receivable	543,765	654,092
Other Receivables	18,166	(2,510)
Unbilled Assessments Receivable	(14,934,866)	18,714,167
Proofs of Claim Filed	(3,373,857)	(25,331,844)
(Increase) Decrease in Liabilities:		
Accounts Payable	344,809	(17,040)
Accrued Expenses	1,286,871	143,944
Refunds Payable	(4,649,881)	7,236,311
Insurance Contractual Obligations	11,118,267	(24,625,076)
Net Cash Used by Operating Activities	***(13,537,016)***	***(15,479,871)***
Cash Flows from Financing Activities		
Inter-account Loans–Made	(17,853,080)	(14,210,618)
Inter-account Loans–Collected	13,041,811	18,533,087
Inter-account Borrowings–Repaid	(13,041,811)	(18,533,087)
Inter-account Borrowing–Received	17,853,080	14,210,618
Net Cash Provided by Financing Activities	**ø**	**ø**
Cash Flows from Investing Activities:		
Recoveries from Estates	7,103,886	19,207,000
Net Cash Provided by Investing Activities	7,103,886	19,207,000
Net Increase (Decrease) in Cash and Cash Equivalents	(6,433,130)	3,727,129
Cash and Cash Equivalents–Beginning of Year	96,520,665	92,793,536
Cash and Cash Equivalents–End of Year	***90,087,535***	***96,520,665***

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

Notes to Financial Statements, December 31, 2000 and 1999

1 Summary of Significant Accounting Policies

Organization– The Life, Accident, Health and Hospital Service Insurance Guaranty Association (the Association) is a nonprofit entity created by Texas' Life, Accident, Health and Hospital Service Insurance Guaranty Act (the Act) 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.

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 having the largest total direct premium income and two from other 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.

Association Management–Effective January 1, 1998, the Board of Directors of the Association entered into a contract for management of the Association. Annual compensation under this contract is classified as "Management Service Contract" in the accompanying Statement of Activities and Changes in Net Assets. The management contract was renewed January 1, 1999 for a three-year period ending December 31, 2001.

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 (billed and unbilled) is recognized when insurance contractual obligations are incurred. Claims liability is 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.

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.

Cash Equivalents–For purposes of the statement of cash flows, the Association considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments–Investments are recorded at market value.

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.

Net Assets–The net assets reflected in the financial statements of the Association are deemed to be permanently restricted, because they may be used only to carry out the purposes established in the Act. The amounts by which estate specific assets exceed the amount necessary to carry out the obligations related to that insolvency are further restricted in that they may be refunded to member insurers or a reasonable amount may be retained to provide funds for the continuing expenses of the Association, thereby reducing future assessments.

Premium Revenue–Premiums received from a policyholder, after an order of receivership of an insolvent insurer is issued, belong to the Association. Direct-billed premiums are recognized as revenue when the premiums are collected. Premiums which are collected by a third party are recorded as premiums receivable and revenue by the Association upon receipt of notice of collection by the third party.

Use of Estimates–The preparation of financial statement 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 those estimates.

Reclassifications–Certain reclassifications have been made to the 1999 financial statements to make them comparable to the 2000 financial statements.

2 Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand deposits and money market investment accounts.

The amount of money market investments at December 31, 2000 and 1999 was $91,608,744 and $95,844,402, respectively. 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. In addition, cash on deposit exceeded federally insured limits by $35,174 at December 31, 1999. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

3 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 at December 31, 2000 and 1999 were as follows:

	2000	1999
Equity Security–Guaranty Security	$1,000	$1,000
Bond–Housing Authority of Florence–Due August 1, 2002, from American Integrity Insurance Co., April 19, 1996	25,000	25,000
	$26,000	***$26,000***

As discussed in Note 2 above, the Association invests in managed money market mutual funds.

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 assessments which may be levied to meet administrative costs; and Class B assessments 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. A Class A assessment has not 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 paid 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 account may not exceed one percent of the member insurer's premiums on the policies covered by the line-of-business account in any one calendar year, which is defined as the most recent available year of assessable premium. The most recent years of assessable premiums, 1999 and 1998, are shown below:

	ASSESSMENT PREMIUM BASE	
LINE OF BUSINESS	1999	1998
Life	$5,473,118,724	$5,217,470,879
Accident & Health	7,789,530,339	7,159,771,033
Annuity	5,400,404,142	3,849,982,287
	$18,663,053,205	***$16,227,224,199***

Class B assessment revenue for 2000 and 1999 was $16,549,759 and $15,231,151 respectively.

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' Class B assessment for 2000 and 1999, refunded to the member insurers $6,525,997 and $18,790,117 respectively.

Billed assessments receivable as of December 31, 2000 and 1999 (before an allowance) were $2,140,994 and $2,966,835, respectively. These unpaid assessments were levied in years 1991 through 2000. An allowance for uncollectible-billed assessments in the amount of $1,721,434 and $1,713,616 has been recorded as of December 31, 2000 and 1999, respectively.

Unbilled assessments, $101,047,600 and $86,112,734 at December 31, 2000 and 1999, respectively, which are subject to annual limitations, represent the statutory ability of the Association to assess member insurers as required to meet corresponding insurance contractual obligations.

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 cost are incurred and paid by the Association. At December 31, 2000 and 1999, proofs of claim receivable on open estates (before an allowance) were $303,326,099 and $307,056,128 respectively.

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, 2000 and 1999, were $299,649,788 and $299,790,628.

6 Inter-account 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. Interest charged on these loans approximates that earned on short-term government securities. For the years ended December 31, 2000 and 1999, the following transactions occurred:

	BALANCE 01/01	ACTIVITY ADDITIONS	REPAYMENTS	BALANCE 12/31
2000				
Inter-account Loans	$13,337,429	$17,853,080	$(13,041,811)	$18,148,698
Inter-account Borrowings	$(13,337,429)	$(17,853,080)	$13,041,811	$(18,148,698)
1999				
Inter-account Loans	$17,659,898	$14,210,618	$(18,533,087)	$13,337,429
Inter-account Borrowings	$(17,659,898)	$(14,210,618)	$18,533,087	$(13,337,429)

7 Insurance Contractual Obligations

The liability for insurance contractual obligations is an estimated amount 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 (receivers, third-party administrators and member participation task forces). Such information is not subject to control of the Association and may change. As of December 31, 2000 and 1999, insurance contractual obligations were $158,041,533 and $146,923,266, respectively. Revisions to estimates of the insurance contractual obligations are reflected in the financial statements as "Changes in insurance contractual obligations."

8 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, 2000, the Association has received approximately $69 million subject to such agreements. No refund of early access distributions has ever been required of the Association by a liquidator or special deputy receiver.

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 Net Assets–Permanently Restricted

As of December 31, 2000 and 1999, net assets reflected in the financial statements of the Association consisted of the following:

	2000	1999
Association's Continuing Administrative Expenses	$11,419,163	$12,082,970
Self Insurance Restricted Funds	41,722	39,375
Insolvent Estates	23,547,632	20,035,240
	$35,008,517	***$32,157,585***

Texas Title Insurance Guaranty Association

Audited Financial Statements, December 31, 1999 and December 31, 2000

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 2000. 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 2001 that runs from September 1, 2000 through August 31, 2001.

Statement of Financial Position, December 31, 2000 and 1999

	2000	**1999**
Assets		
Cash and Cash Equivalents (Note 2)	$4,200,002	$4,766,810
Other Assets	39,710	89,883
Total Assets	***$4,239,712***	***$4,856,693***
Liabilities and Net Assets		
Liabilities:		
Accounts Payable and Accrued Expenses	$64,199	$256,892
Total Liabilities	***64,199***	***256,892***
Commitments and Contingencies (Note 3)	ø	ø
Net Assets:		
Permanently Restricted	4,175,513	4,599,801
Total Liabilities and Net Assets	***$4,239,712***	***$4,856,693***

Statements of Activities and Changes in Net Assets For the Year Ended December 31, 2000 and 1999

Revenue		
Recoveries	$3,829	$4,848
Interest	243,470	267,966
Title Guaranty Fees	ø	ø
Gain on Sale of Land	100,081	45,930
Rents	ø	5,760
Recoupment Fees	ø	ø
Total Revenue	***347,380***	***324,504***
Expenses		
Examiners' Fees	730,168	785,996
Refund of Premium Tax Offset to Comptroller	ø	4,416,352
Administrative Costs:		
Legal and Professional	26,466	27,581
Accounting and Auditing	10,500	11,050
Board Members' Expense	1,969	2,811
Other	2,565	866
	41,500	42,308
Total Expenses	***771,668***	***5,244,656***
Revenue over (under) Expenses	(424,288)	(4,920,152)
Net Assets–Beginning	4,599,801	9,519,953
Net Assets–Ending	***$4,175,513***	***$4,599,801***

Statements of Cash Flow For the Year Ended December 31, 2000 and 1999

Cash Flows from Operating Activities:		
Excess of Revenues over (under) Expenses	$(424,288)	$(4,920,152)
Adjustments to Reconcile or Revenues over Expenses to Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
(Increase) Decrease in Other Assets	ø	ø
Increase (Decrease) in Accounts Payable	(192,693)	179,748
Total Adjustments	(192,693)	179,748
Net Cash (Used) Provided by Operating Activities	***(616,981)***	***(4,740,404)***

Statements of Cash Flow For the Year Ended December 31, 2000 and 1999

	2000	1999
Cash Flows from Investing Activities:		
Accrued Increase Income	(20,598)	ø
Land Sold	70,771	33,462
Net Cash (Used) Provided by Investing Activities	***50,173***	***33,462***
Net Increase (Decrease) in Cash and Cash Equivalents	(566,808)	(4,706,942)
Cash Equivalents, Beginning of Year	4,766,810	9,473,752
Cash Equivalents, End of Year	***$4,200,002***	***$4,766,810***

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

Notes to Financial Statements, December 31, 2000 and 1999

1 Summary of Significant Accounting Policies

Organization–The Texas Title Insurance Guaranty Association (the Association) is a non-profit organization formed under the Texas Title Insurance Guaranty 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. The fee is to provide funds for title examinations under the supervision of the Commissioner of Insurance and to pay covered claims with respect to impaired agents. These fees are no longer being collected except for late filings by title agents. Assessments may be levied on the individual insurers to pay covered claims arising from impaired underwriters.

Recoupment fees are 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.

Accrual Basis of Accounting–The financial statements are presented on the accrual basis of accounting; consequently, revenues are recognized when earned, and expenses are recognized when the obligations 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.

Tax Exempt Status–The Association considers itself to be a governmental entity and as such, does not file a federal income tax return. 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 property.

Investments–Investments as of December 31, are carried at cost, which approximates market value.

Cash Equivalents–For purposes of the statement of cash flows, the Association considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

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 those estimates.

2 Cash and Cash Equivalents

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

	2000	1999
Cash on Deposit	$94,310	$164,899
Mutual Funds	4,105,692	4,601,911
	$4,200,002	***$4,766,810***

Cash on Deposit exceeded federally insured limits by approximately $176,616 at December 31, 2000.

The Association's temporary investments are comprised of investments in an U.S. Government mutual fund. These mutual fund investment securities 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. These amounts are recorded at fair value.

3 Commitments and Contingencies

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 may result in litigation against the Association.

4 Significant Group Concentrations of Risk

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