Part III

Liquidator's and Conservator's Report

This section of the *127th 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, 2001–August 31, 2002

	EXISTING	NEW	FY2002 YEAR-END BALANCES
Domestic			
Stock Life			
Stipulated Premium			
Local Mutual Aid			
Fraternal			
Fire and/or Casualty	2	9	2
Lloyds			
Reciprocal Exchanges		1	1
Surplus Lines Insurers			
Managing General Agents	0	1	1
Local Recording Agents	0	1	1
Agencies	0	1	1
Premium Finance Company			
Title			
Title Agents	2	1	0
Health Maintenance Organization	1	3	3
Third Party Administrators	5	1	2
Utilization Review Agents	1	0	0
Employee Group Benefit Plan	0	1	0
Unauthorized Insurers			
Foreign			
Totals	***11***	***19***	***11***

Summary of Conservatorships

September 1, 2001–August 31, 2002

	EXISTING	NEW	FY2002 YEAR-END BALANCES
Domestic			
Stock Life	0	1	1
Stipulated Premium			
Local Mutual Aid			
Fraternal			
Fire and/or Casualty	1	0	0
Lloyds			
Reciprocal Exchanges			
Surplus Lines Insurers			
Managing General Agents			
Local Recording Agents			
Agencies			
Premium Finance Company			
Title			
Title Agents			
Health Maintenance Organization			
Third Party Administrators			
Utilization Review Agents			
Employee Group Benefit Plan			
Unauthorized Insurers			
Foreign			
Totals	***1***	***1***	***1***

Summary of Insurers under Special Administrative Action

September 1, 2001–August 31, 2002

	EXISTING	NEW	FY2002 YEAR-END BALANCES
Domestic			
Stock Life	7	0	6
Stipulated Premium			
Local Mutual Aid			
Fraternal			
Fire and/or Casualty	10	9	11
Lloyds	2	0	2
Reciprocal Exchanges	1	0	0
Surplus Lines Insurers			
Managing General Agents			
Local Recording Agents			
Agencies			
Premium Finance Company	1	0	1
Title	1	0	0
Title Agents	0	2	0
Health Maintenance Organizations	3	3	3
Third Party Administrators	0	3	3
Utilization Review Agents			
Employee Group Benefit Plan			
Unauthorized Insurers			
Foreign	**1**	**2**	**3**
Totals	***26***	***19***	***29***

Insurance Companies in Supervision, Conservatorship or under 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
2002	38	39	1	3	2	9	21	41

Note: *FY2002/Other Changes: 9 entities moved from Supervision to Article 1.32; 3 entities moved from Supervision to Administrative Oversight; 2 entities moved from Administrative Oversight to Supervision; 1 entity moved from Administrative Oversight to Conservatorship1; 5 entities moved from Letter Agreement to Supervision; and 1 entity moved from Supervision to Chapter 7 Bankruptcy.*

Companies in Supervision at Beginning of Fiscal Year 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
01-0233	03-19-01	Confidential*
01-0266	03-26-01	Confidential
01-0291	04-03-01	WellCare Health Plans of Texas, L.L.C.
01-0476	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 in Conservatorship at Beginning of Fiscal Year 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
01-0832	08-30-01	Confidential

**Confidential pursuant to Texas Statute*

Art. 1.32/Insurers under Special Administrative Action at Beginning of Fiscal Year 2002

ACTION	DATED	COMPANY NAME
Art. 1.32/92-0903	09-16-92	Provident American Ins. Co.
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.
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.
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	09-14-99	Universal Health Plan, Inc.
Letter	01-13-00	Dallas General Life Insurance Co.
Letter	11-07-00	Frio County Abstract Co.
Agreement Letter	04-20-01	PacifiCare of Texas, Inc.
Letter	11-27-00	Presidential Life Ins. Co.
Letter	12-19-00	Millers Insurance Co.
Art. 1.32/01-0122	02-09-01	Jefferson Life Ins. Co.
Agreement Letter	04-20-01	Northwestern Nat'l Casualty Co.
Agreement Letter	04-20-01	NN Insurance Company
Agreement Letter	04-20-01	American Professionals Ins. Co.
Art. 1.32/01-0385	04-30-01	Frontier Insurance Co.
Letter	06-07-01	Reliant American Ins. Co.
Letter	06-20-01	Universal Acceptance Co, Inc.
Letter Agreement	08-09-01	Methodist Care, Inc.

Companies Placed in Supervision Between September 1, 2001 and August 31, 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
01-1008	10-22-01	HHS Texas Management, L.P.
01-1031	10-31-01	Church and School Association Employee Group
01-1061	11-12-01	Confidential*
02-0135	02-11-02	AmCorp Insurance Company
02-0164	02-22-02	Confidential
02-0165	02-22-02	Confidential
02-0166	02-22-02	Confidential
02-0167	02-22-02	Confidential
02-0168	02-22-02	Confidential
02-0207	03-07-02	Petro General Agency, LLC
02-0327	04-04-02	Confidential
02-0350	04-08-02	Aberdeen Insurance Services. Inc.
02-0374	04-15-02	Thomas G. Corless†
02-0375	04-15-02	Robert Edward Osmundsen†
02-0495	05-13-02	Confidential
02-0551	05-29-02	Confidential
02-0820	08-06-02	Coordinated Care Solutions of Texas, Inc.
02-0830	08-12-02	AmCare Health Plans of Texas, Inc.
02-0831	08-12-02	AmCare Management, Inc.

** Confidential pursuant to Texas Statute*
† A non-confidential order issued at a later date

Companies Placed in Conservatorship between September 1, 2001 and August 31, 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
02-0494	05-10-02	Confidential*

**Confidential pursuant to Texas Statute*

Insurers under Special Administrative Action between September 1, 2001 and August 31, 2002

ACTION	DATED	COMPANY NAME
Art. 1.32/ 01-0886	09-12-01	Western Indemnity Insurance Co.
Art. 1.32/ 01-0913	09-21-01	WellCare Health Plans of Texas, L.L.C.
Art. 1.32/ 01-0927	09-26-01	Petrosurance Casualty Co.
Art. 1.32/ 01-1000	10-18-01	Provident Indemnity Life Ins. Co.
Letter	11-26-01	Guaranty Abstract Co.
Letter Agreement	11-28-01	SelectCare of Texas, L.L.C.
Letter	12-03-01	WellMed Medical Management, Inc.
Art. 1.32/ 02-0121	02-06-02	QualityCare Network of Texas, Inc
Art. 1.32/ 02-0191	03-04-02	Colonial Casualty Insurance Co.
Letter	04-05-02	AmCare Health Plans of Texas, Inc.
Letter	04-08-02	HHS Texas Management, L.P.
Letter	05-10-02	San Antonio Title Company
Letter	05-17-02	Texas Builders Insurance Co.
Art. 1.32/ 02-0760	07-23-02	The Aries Insurance Co.
Art. 1.32/ 02-0876	08-25-02	Aberdeen Insurance Company
Art. 1.32/ 02-0877	08-25-02	Highlands Casualty Company
Art. 1.32/ 02-0878	08-25-02	Highlands Insurance Co.
Art. 1.32/ 02-0879	08-25-02	Highland Lloyds
Art. 1.32/ 02-0880	08-25-02	Highlands Underwriters Insurance Co.

Companies Released from Supervision between September 1, 2001 and August 31, 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
01-1229	12-20-01	Heritage Administrators, Inc.
01-1230	12-20-01	Heritage Southwest Medical Group,PA
02-0118	02-05-02	Metroplex Title, Inc.
02-0124	02-06-02	North American Medical Management-San Antonio, LP
02-0471	05-03-02	Church and School Association Employee Group
02-0911	08-30-02	Petro General Agency, LLC
02-0915	08-30-02	AmCorp Ins. Co.

Companies Released from Conservatorship between September 1, 2001 and August 31, 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
00-0000	00-00-00	

Insurers Released from Special Administrative Action between September 1, 2001 and August 31, 2002

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
Letter	12-31-01	Reliant American Insurance Co.
Letter	01-10-02	Universal Health Plan, Inc.
Letter	02-07-02	Frio County Abstract Co.
Art. 1.32/ 02-0365	04-11-02	Petrosurance Casualty Co.
Letter Agreement	05-07-02	Methodist Care, Inc.
Letter	07-15-02	San Antonio Title Co.
Letter	08-09-02	Presidential Life Insurance Co.
Letter	08-29-02	Guaranty Abstract Co.
Letter Agreement	08-30-02	NN Insurance Co.

Insurance Companies and Affiliates in Receivership as of August 31, 2002

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
461	Sir Lloyd's Insurance Company	91-12765	200th
465	Comco Insurance Company	91-14077	345th
487	Employers Casualty Company	92-02133	353rd
490	Employers National Insurance Company	94-00950	53rd
495	United Republic Insurance Company	97-07775	126th
496	American Eagle Insurance Company	97-13405	201st
498	Gulf Atlantic Life Insurance Company	97-12317	126th
499	Professional Benefits Insurance Company	98-04500	201st
500	Comprehensive Health Services of TX. Inc.	99-01313	353rd
501	Legal Security Life Insurance Company	99-03277	98th
503	The Statesman National Life Insurance Co.	99-02772	250th
504	Unistar Insurance Company	GV000639	390th
505	Bankers Commercial Life Insurance Co.	GV000750	353rd
506	Medical Community Insurance Company	GV002304	353rd
507	Benefit Life Insurance Company	GV002510	353rd
508	American Benefit Plans, et al	GV200903	53rd
509	Amcorp Insurance Company	GV202944	261st
510	Colonial Casualty Insurance Company, et al	GV202935	201st

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

As of August 31, 2002: 22 Active Receiverships

**These numbers reflect one receivership that had previously closed, Commodore Life Insurance Company, was reopened.*

Consolidated Receiverships

Balance Sheet

	08/31/2002	08/31/2001
Cash Assets		
Operating Account	$8,787,474	$2,437,109
Texas Treasury Account	99,408,937	152,587,057
Court Approved Deposits	578,173	620,044
Early Access / Texas GA	305,071,500	285,293,786
Early Access / Other GAs	93,925,634	93,088,084
Assets/for recovery		
Funds Restricted	787,303	(449,860)
Premiums	22,086,620	33,753,450
Agent Balances	270,224	606,124
Reinsurance	40,954,504	36,932,486
Subrogation	8,074,151	7,516,588
Other	34,986,488	43,759,929
Allowance for Recovery	(53,560,616)	(51,915,221)
Stocks/Bonds	10,492,318	11,205,674
Real Estate	163,722	163,723
Mortgages/Notes	490,293	493,010
Other	22,385,083	21,290,674
Allowance for Recovery	(23,748,878)	(22,790,101)
Furniture & Fixtures	319,311	386,210
Computers/Software	0	7,000
Home Office Building	9,569	9,569
Allowance for Recovery	(283,818)	(347,095)
Total Assets	***571,197,992***	**** 614,648,241***
Company Liabilities		
Class I Reserves–G/A	11,444,626	6,135,307
Class II Claims Reserves–G/A	452,270,109	483,974,281
Class II Claims Reserves–Non-G/A	87,609,145	100,424,985
Other Liabilities	88,467,252	89,638,074
Class I Creditors		
SDR Fees	413,388	482,311
SDR Sub-Contractors	263,984	271,546
Receivers Allocation	16,906	34,974
GA–Claims Expense	59,408,203	60,079,173
Other Class I	4,976,896	4,161,839
Class II Creditors		
Policyholder Claims	51,157,759	70,357,417
GA–Policyholder Claims Paid	478,325,035	461,594,455
Other Class II	5,017,470	14,731,663
Class III Creditors		
IRS Payable	1,394,205	1,516,826
Other Class III Payable	2,307,423	
Class IV Payable		
General Creditors	4,490,605	6,145,348
Reinsurance Payable	39,116,920	39,931,074
Other Class IV	69,266,933	66,371,958
Class V Creditors		
Surplus Debentures	0	0
Ownership Interests	1,009,069	1,010,863
Other Class V	0	2,214,621
Total Company Liabilities	***1,356,955,928***	***1,409,076,714***
Accumulated (Loss) Equity	(779,882,517)	(784,460,781)
Unrealized Recovery	(5,875,418)	(9,967,692)
Total Liabilities and Equity	***571,197,992***	***614,648,241***

** prior year should have been rounded up to the nearest whole dollar.*

Statement of Receipts and Expenditures

	08/31/2002	08/31/2001
Funds Held		
Funds Held for Others	$1,305,089	$8,114,150
Funds Held for Others Expense	(184,913)	0
Premium		
Collections	4,733,798	1,346,095
Collection Expense	(1,359,003)	(486,716)
Litigation Expense	(49,480)	(201,437)
Receivable		
Agents Balance Receipts	91,798	14,290
Agents Balance Expense	(4,874)	(9,542)
Reinsurance Recovery	16,549,262	10,755,778
Reinsurance Expense	(976,259)	(979,847)
Subrogation Recovery	157,900	947,221
Subrogation Expense	(120,303)	(187,086)
Intercompany Receivable Receipts	0	2,820
Intercompany Receivable Expenses	0	0
Other Receivable Receipts	4,781,863	195,612
Other Receivable Expenses	(642,088)	(55,987)
Litigation Receivable		
D & O Litigation Recovery	100,000	3,750,000
D & O Litigation Expense	(220,872)	(1,760,589)
Judgment/Settlement Collections	312,689	2,412
Judgment/Settlement Expense	(96,995)	(2,788)
Investment Account Receipts	0	193
Investment Account Expense	(765)	(260)
Other Litigation Receipts	0	0
Other Litigation Expense	(151,908)	(482,757)
Sale/Conversion of Investment Assets		
Securities/Bonds Sales Receipts	0	508,211
Securities/Bonds Sales Expense	(8,743)	(14,577)
Statutory Deposit Receipts	1,375,165	1,490,833
Statutory Deposit Expense	(61,913)	(32,388)
Real Estate Sales Receipts	54,167	1,998,303
Real Estate Sales Expense	(113,146)	(165,499)
Mortgage Note Expense	(980)	(259)
Subsidiary Affiliate Receipts	139,921	2,764,343
Subsidiary Affiliate Expense	(8,334)	(16,284)
Other Assets Receipts	227,219	935,061
Other Assets Sales Expense	(224,013)	(117,567)
Sale of Company Fixed Assets		
Charter Sales Receipts	0	50,000
Charter Sales Expense	(1,728)	(5,220)
Furniture, Fixtures & Equipment Receipts	51,440	158,176
Furniture, Fixtures & Equipment Expense	(431)	(2,343)
Company Real Estate Receipts	5,000	0
Company Real Estate Expense	(18,944)	(3,684)
Other Fixed Asset Receipts	1,890	2,826
Other Fixed Asset Expense	(1,432)	0
Net Income from Assets/Receivable	***25,619,986***	***28,511,494***
Passive Income		
Investments Interest/Dividends	79,347	133,677
Cash Deposit Interest Income	2,591,113	8,711,363
Early Access Imputed Interest Income	6,053,325	1,109,837
Net Income/Including Passive	***34,343,771***	***38,466,371***
Claims Expenses		
Covered Claims Expense		
G/A Expense	(4,466,472)	(2,543,158)
SDR Fees	(686,141)	(568,262)
SDR Subcontractor Fees	(246,761)	(220,791)
Other Covered Claims	(47,042)	(1,057,491)
Non Covered Claims Expenses		
SDR Fees	(1,115,541)	(898,842)

Continued on page 80

Consolidated Receiverships

Statement of Receipts and Expenditures

	08/31/2002	08/31/2001
SDR Subcontractor Fees	*(205,840)*	*(352,833)*
Other Non Covered Claims	(23,916)	(28,021)
Claims Paid/Distribution		
Covered Claims Funded–G/A	19,522,973	15,409,743
Covered Claims Paid–G/A	(19,277,498)	(14,841,948)
Early Access–G/A	(36,192,443)	(24,299)
Non-Covered Claims Paid/Receivership Distribution	(30,786,130)	(13,827,472)
Total Claims Expenses	***(73,524,811)***	***(18,953,374)***
Class I General Administration Expenses		
Liquidation Division Expense	(2,872)	(453,901)
Bank/Miscellaneous Charges	(33,642)	(44,994)
Building/Utilities	(297,828)	(317,717)
Contract/Employee	(44,945)	(89,905)
Equipment/Lease/Maintenance	(345,824)	(485,058)
Employee–Payroll, PRTax, Benefits	(573)	(25,471)
Equipment Lease/Inventory/Storage/Moving	(630,206)	(869,097)
Mailing/Printing/Postage/Publication	(42,341)	(46,049)
Office Supplies/Miscellaneous	(268,848)	(41,817)
Telephone	(24,864)	(26,345)
Receivership Allocation	(255,477)	(626,351)
Total Class I General Administration Expenses	***(1,947,420)***	***(3,026,705)***
Class I Subcontractor Administration Expenses		
Accounting/Auditing/Federal Income Tax Service	(73,051)	(70,155)
Consulting Fees/Services	(118,636)	(157,640)
Legal Fees/Services	(422,909)	(231,768)
Class I SDR Admin. Expenses		
SDR Administration	(1,238,025)	(1,158,133)
SDR Accounting	(464,057)	(437,237)
SDR Special Services	(758,918)	(814,611)
SDR Legal Services	(111,769)	(108,153)
Total Receivership Administrative Expenses	***(5,134,785)***	***(6,004,403)***
Net Increase (Decrease) to Receivership Cash	(44,500,737)	13,508,594
FY 2002 Reconciliation Adjustments	(6,792,001)	(5,520,415)
Cash Avaialble as of 8/31/02	***108,697,298***	***154,792,005***

Texas Property and Casualty Insurance Guaranty Association

Audited Financial Statements

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 2001. 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, 2001 through August 31, 2002.

Statement of Financial Position, December 31

	2001	2000
Assets		
Current Assets		
Cash and Cash Equivalents (Notes 1 and 2)	$5,056,338	$6,260,529
Investments, at Fair Value (Note 3)	371,447,905	348,198,727
Assessments Receivable	86,161,687	-0-
Accounts Receivable–Other	127,851	124,322
Total Current Assets	***462,793,781***	***354,583,578***
Noncurrent Assets		
Loans Receivable (Note 5)		
Administrative	20,676,904	22,798,625
Auto	112,433,452	115,350,580
Other Lines	74,679,293	74,870,849

Statement of Financial Position, December 31

	2001	2000
Workers' Compensation	$181,113,588	$175,780,037
Total Loans Receivable	*388,903,237*	*388,800,091*
Allowance for Doubtful Accounts (Notes 1 and 5)	(388,903,237)	(388,800,091)
Net Loans Receivable	—	—
Property and Equipment (Note 1)		
Furniture and Equipment	649,916	649,916
Computer Systems	1,427,268	1,218,931
Telephone Systems	167,778	167,778
Company Vehicle	14,413	30,732
Leasehold Improvements	81,191	81,191
Accumulated Depreciation	(1,730,196)	(1,599,979)
Net Property and Equipment	***610,370***	***548,569***
Total Noncurrent Assets	***610,370***	***548,569***
Total Assets	***463,404,151***	***355,132,147***
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$407,308	$256,620
Employee Health Claims	69,242	30,556
Outstanding Checks	1,774,473	1,495,211
Current Portion of Claims Payable (Note 6)	42,000,000	21,000,000
Total Current Liabilities	***44,251,023***	***22,782,387***
Long-Term Liabilities:		
Claim Liabilities (Note 6)		
Loss Adjustment Expense	12,821,522	12,829,692
Auto	24,563,435	582,143
Other Lines	27,019,601	12,809,566
Workers' Compensation	308,783,005	270,143,446
Total Long Term Claim Liabilities	373,187,563	296,364,847
Other Long Term Liabilities:		
Early Access Distribution (Note 6)	27,811,472	29,427,946
Total Other Long Term Liabilities	*27,811,472*	*29,427,946*
Total Long Term Liabilities	***400,999,035***	***325,792,793***
Total Liabilities	***445,250,058***	***348,575,180***
Net Assets, Unrestricted (Note 7)	18,154,093	6,556,967
Total Liabilities and Net Assets	***463,404,151***	***355,132,147***

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

	2001	2000
Revenues		
Distributions	$30,795,366	$18,414,948
Assessments	86,161,687	—
Investment Income, Net (Note 10)	28,375,898	32,359,425
Interest on Accounts	158,860	480,776
Subrogation and Salvage Recoveries	168,479	251,500
Miscellaneous Income	11,986	18,540
Total Revenues	***145,672,276***	***51,525,189***
Claims Activity		
Claims Payments		
Claims Administration	3,121,595	2,437,804
Auto	519,292	664,910
Other Lines	2,233,971	3,221,427
Workers' Compensation	24,642,805	14,451,560
Total Claims Payments	*30,517,663*	*20,775,701*
Change in Claims Liabilities	96,628,407	(27,760,192)
Total Claims Activity	***127,146,070***	***(6,984,491)***

Continued on page 82

Texas Property and Casualty Insurance Guaranty Association

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

	2001	2000
Refunds of Prior Year Assessments	$2,276,986	—
Excess (Deficiency) of Revenues over Claims Activity and Refunds	16,249,220	58,509,680
Operating Expenses		
Employment Expenses	2,848,058	2,629,040
Employee Relations	6,570	6,807
Education and Staff Development	48,079	48,027
Contract Labor	12,816	7,934
Legal Fees	12,425	27,335
Audit Fees	14,500	14,500
Consulting	44,158	24,604
Leasehold Improvements	2,301	1,233
Office Rent and Overhead	562,270	526,166
Insurance	76,818	70,103
Furniture & Equipment	3,546	1,182
Equipment Rental	44,945	44,231
Computer Systems	444,843	359,095
Telephone	57,807	49,340
Office Supplies	37,014	23,390
Postage & Delivery	87,928	36,109
Printing	8,525	5,026
Advertising–Employee Procurement	758	—
Travel	33,974	37,335
Professional Meetings	23,180	17,235
Reference Materials	15,631	14,711
Subscriptions & Professional Dues	66,681	65,160
Property Taxes	11,456	15,847
Bank Charges	34,922	264
Depreciation Expense	156,581	149,019
Total Operating Expenses	***4,655,786***	***4,173,693***
Increase (Decrease) in Net Assets	11,593,434	54,335,987
Gain (Loss) on Sale of Property and Equipment	3,692	(1,320)
Beginning Net Assets (Deficit) at January 1	6,556,967	(47,777,700)
Net Assets (Deficit) at December 31	***18,154,093***	***6,556,967***

Statement of Cash Flows for the Year Ended December 31

	2001	2000
Cash flows from Operating Activities		
Decrease in Net Assets	$11,593,434	$54,335,987
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities		
Depreciation Expense	156,581	149,019
Unrealized Gains (Losses) on Investments	(2,256,368)	(14,411,134)
Change in Assets and Liabilities		
(Increase) Decrease in Assessments Receivable	(86,161,687)	—
(Increase) Decrease in Other Assets	(3,529)	4,202
Increase (Decrease) in Claims Liabilities	96,628,407	(27,760,192)
Increase (Decrease) in Other Liabilities	46,470	(11,031)
Total Adjustments	***8,409,874***	***(42,029,136)***
Net Cash (Used) Provided by Operating Activities	20,003,308	12,306,851
Cash flows from Investing Activities		
Capital Expenditures	(222,190)	(14,404)
Sale of Property and Equipment	3,809	(10,714)
Gain (Loss) on Sale of Property and Equipment	3,692	(1,320)
Purchase of Investments	(444,061,497)	(308,717,628)
Proceeds from Sales and Maturity of Investments	423,068,687	295,291,987
Net Cash (Used) Provided by Investing Activities	(21,207,499)	(13,452,079)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,204,191)	(1,145,228)
Cash and Cash Equivalents at January 1	6,260,529	7,405,757
Cash and Cash Equivalents at December 31 (Note 2)	***5,056,338***	***6,260,529***

These notes are an integral part of the 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.

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.

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 percent of the portfolio. The balance of derivatives at December 31, 2001, and 2000, represented 11.9 percent and 14.0 percent, respectively of the portfolios 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:

	2001	2000
Cash in Bank	$90,926	$2,833,205
Cash on Hand	300	300
Mutual Funds	4,965,112	3,427,024
	5,056,338	***6,260,529***

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, 2001, the Association maintained demand accounts with bank balances in excess of federally insured limits of $8,951. The carrying value of these demand accounts, resulting from uncollected items and outstanding checks, was $90,926 in 2001 and $2,833,205 in 2000.

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 percent 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 percent 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 20 percent 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 percent 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 percent 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:

2001	FAIR VALUE	% OF FAIR VALUE
U. S. Treasury Issues	$117,108,580	31.6%
Federal Agency Issues	183,154,084	49.3%
Mortgage-backed Pass-through Securities (Derivatives)	44,244,923	11.9%
Cash Equivalents	19,766,761	5.3%
Short Term Notes and Bonds	2,576,150	0.7%
Accrued Interest	4,597,407	1.2%
Total at December 31, 2001	***371,447,905***	***100.0%***
2000		
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%***

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.

Investments held by the Association at December 31, 2001 and 2000 were considered Category 2 investments as defined by Governmental Accounting Standards Board Statement No. 3, uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.

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 (2000):

LINE-OF-BUSINESS	PREMIUM BASE	ASSESSMENT CAPABILITY
Automobile	$9,359,978,289	$187,199,566
Other Lines	7,249,414,551	144,988,291
Workers' Compensation	3,339,202,127	66,784,042
	19,948,594,967	***398,971,899***

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 percent 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)

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, 2001, are as follows:

LINE-OF-BUSINESS	CLAIMS PAYABLE	ANNUAL ASSESSMENT CAPABILITY
Automobile	$ 24,563,435	$187,199,566
Other Lines	27,019,601	144,988,291
Workers' Compensation	308,783,005	66,784,042
Loss Adjustment Expenses	12,821,522	No Limit
Total	373,187,563	
Current	42,000,000	
Long Term	$415,187,563	

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, 2004. The Association is obligated for the following minimum lease payments:

MINIMUM	LEASE PAYMENT
2002	$525,581
2003	526,188
2004	488,458
	1,540,227

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 2001 were $29,437,861 (including $2,256,368 in unrealized gains, $8,024,814 in realized gains and security lending income of $410,901), net of realized losses of $685,319, custodian fees of $21,144, and investment manager's fees of $355,500, resulting in net investment income of $28,375,898. 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.

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 percent 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 percent 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, 2001, and 2000, were $127,025 and $124,524, respectively. The employees contributed $171,158 and $157,663 for 2001 and 2000, 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 percent; 2 years: 40 percent; 3 years: 60 percent; 4 years: 80 percent; and 5 years: 100 percent.

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 Accounting Standards Not Yet Adopted

Government Accounting Standards Board Statement Number 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, becomes effective in phases, depending on the primary government's total governmental and enterprise fund revenues in the fiscal year ending after June 15, 1999. For Governments with total annual revenues of $10 to $100 million it would be effective for years beginning after June 15, 2002. This statement requires for the first time that the basic financial statements include a statement of net assets and a statement of activities that focus on the government as a whole rather than on fund types.

14 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 2001, 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

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 2001. 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, 2001 through August 31, 2002.

Statements of Financial Position, December 31, 2001 and 2000

	2001	2000
Assets		
Cash and Cash Equivalents (Note 2)	$99,888,823	$90,087,535
Investments (Note 3)	26,000	26,000
Receivables		
Billed Assessments, Net of Allowance of $1,965,270 and $1,721,434 (Note 4)	605,904	419,560
Premiums Receivable	—	7,434,041
Other Receivables	10,646	25,210
Inter-account Loans (Note 6)	166,647	18,148,698
Unbilled Assessments (Note 4)	70,623,293	101,047,600
Proofs of Claim, Net of Allowance of $311,240,294 and $299,649,788 (Note 5)	11,186,805	3,676,311
Total Assets	***182,508,118***	***220,864,955***
Liabilities and Net Assets		
Liabilities		
Accounts Payable	771,464	757,506
Accrued Expenses	38,223	1,674,178
Inter-account Borrowings (Note 6)	166,647	18,148,698
Estate Refunds Payable (Note 4)	4,804,458	7,234,523
Insurance Contractual Obligations (Note 7)	143,973,085	158,041,533
Total Liabilities	***149,753,877***	***185,856,438***

Statements of Financial Position, December 31, 2001 and 2000

	2001	2000
Net Assets: (Note 9)		
Permanently Restricted	$32,754,241	$35,008,517
Total Liabilities and Net Assets	***182,508,118***	***220,864,955***

Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2001 and 2000

	2001	2000
Revenues		
Assessments (Note 4)	$30,821,449	$16,549,759
Change in Unbilled Assessments	(30,424,307)	14,934,866
Recoveries from Estates, Net of Claims Filed and Adjustment to the Allowance of $(7,510,493) and $3,593,770	17,142,549	3,510,116
Interest	3,901,361	6,476,481
Premiums	7,975,880	10,196,727
Other	(2,561)	42,102
Total Revenues	***29,414,371***	***51,710,051***
Expenses		
Claims:		
Changes in Insurance Contractual Obligations (Note 7)	(14,068,448)	11,118,267
Claims Paid	19,051,898	19,860,749
Assumptive Reinsurance Agreements	4,998,927	5,123,308
Third-Party Administrators	2,011,011	2,303,383
Interest	704,449	965,921
National Task Forces	984,381	1,183,808
Claims Expenses Sub Total	***13,682,218***	***40,555,436***
Refund of Prior Years' Assessments (Note 4)	16,142,300	6,525,997
Administrative Costs:		
Legal and Professional	209,381	228,188
Management Service Contract	1,423,800	1,260,000
Other	210,948	289,498
Administrative Costs Sub Total	***1,844,129***	***1,777,686***
Total Expenses	***31,668,647***	***48,859,119***
Change in Net Assets	(2,254,276)	2,850,932
Net Assets-Beginning of Year	35,008,517	32,157,585
Net Assets-End of Year	***32,754,241***	***35,008,517***

Statements of Cash Flows For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash Flows from Operating Activities		
Change in Net Assets	$(2,254,276)	$2,850,932
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Allowance for Billed Assessments Receivable	243,836	7,818
Allowance for Uncollectible Proofs of Claim	11,590,506	(140,840)
(Increase) Decrease in Assets		
Billed Assessments Receivable	(430,180)	825,841
Premiums Receivable	7,434,041	(7,434,041)
Lawsuit Settlement Receivable	—	543,765
Other Receivables	14,563	18,166
Unbilled Assessments	30,424,308	(14,934,866)
Proofs of Claim Filed	(28,723,135)	(30,305,213)
Transfer to Closed Estates	—	26,931,356
Increase (Decrease) in Liabilities:		
Accounts Payable	13,958	344,809

Continued on page 90

Statements of Cash Flows For the Years Ended December 31, 2001 and 2000

	2001	2000
Accrued Expenses	$(1,635,955)	$1,286,871
Refund Payable	(2,430,065)	(4,649,881)
Insurance Contractual Obligations	(14,068,448)	11,118,267
Net Cash Provided by (Used in) Operating Activities	***179,153***	***(13,537,016)***
Cash Flows from Financing Activities		
Inter-account Loans-Made	(14,197,703)	(17,853,080)
Inter-account Loans-Collected	32,179,754	13,041,811
Inter-account Borrowings-Repaid	(32,179,754)	(13,041,811)
Inter-account Borrowings-Received	14,197,703	17,853,080
Net Cash Provided by Financing Activities	—	—
Cash Flows from Investing Activities		
Recoveries from Estates	9,622,135	7,103,886
Net Cash Provided by Investing Activities	9,622,135	7,103,886
Net Increase (Decrease) in Cash and Cash Equivalents	9,801,288	(6,433,130)
Cash and Cash Equivalents-Beginning of Year	90,087,535	96,520,665
Cash and Cash Equivalents-End of Year	***99,888,823***	***90,087,535***

Notes to Financial Statements, December 31, 2001 and 2000

These notes are an integral part of the financial statements.

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, 2002 for a one-year period ending December 31, 2002.

Basis of Accounting–The financial statements are presented on the accrual basis of accounting, except for premium income which is recognized when collected (See Note 1(i)); 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 for coverage, after an order of receivership is entered, 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 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.

2 Cash and Cash Equivalents

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

Money market investments at December 31, 2001 and 2000 were $104,442,859 and $91,608,744, 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. 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, 2001 and 2000 were as follows:

	2001	2000
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***

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.

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 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 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 premium base, 2000 and 1999, are shown below:

	Assessable Premium Base	
Line of Business	**2000**	**1999**
Life	$5,366,187,267	$5,473,118,724
Accident & Health	8,251,583,022	7,789,530,339
Annuity	5,539,715,948	5,400,404,142
	19,157,486,237	***18,663,053,205***

Class B assessment revenue for 2001 and 2000 was $30,821,449 and $16,549,759, respectively. The Association collected approximately 97 percent of the total assessment revenue for 2001 and 2000 as of the end of each 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' Class B assessment for 2001 and 2000, refunded to the member insurers $16,142,300 and $6,525,997, respectively.

Billed assessments receivable as of December 31, 2001 and 2000 (before an allowance) were $2,571,174 and $2,140,994, respectively. These unpaid assessments were levied in years 1991 through 2001. An allowance for uncollectible billed assessments in the amount of $1,965,270 and $1,721,434 has been recorded as of December 31, 2001 and 2000, respectively.

Unbilled assessments of $70,623,293 and $101,047,600 at December 31, 2001 and 2000, 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 costs are incurred and paid by the Association. At December 31, 2001 and 2000, proofs of claim receivable on open estates (before an allowance) were $322,427,099 and $303,326,099, 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, 2001 and 2000, were $311,240,294 and $299,649,788, respectively.

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, 2001 and 2000, the following transactions occurred:

	BALANCE 01/01	ACTIVITY ADDITIONS	ACTIVITY REPAYMENTS	BALANCE 12/31
2001				
Inter-account Loans	$18,148,698	$14,197,703	$(32,179,754)	$166,647
Inter-account Borrowings	(18,148,698)	(14,197,703)	32,179,754	(166,647)
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)

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, 2001 and 2000, insurance contractual obligations were $143,973,085 and $158,041,533, respectively. One open estate, Executive Life, comprised approximately 90 percent of the insurance contractual obligations at December 31, 2001 and 2000. Revisions to estimates of the insurance contractual obligations are reflected in the statements of activities and changes in net assets 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, 2001, the Association has received approximately $90 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. 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.

9 Net Assets-Permanently Restricted

As of December 31, 2001 and 2000, net assets reflected in the financial statements of the Association consisted of the following:

	2001	2000
Association's Continuing Administrative Expenses	$10,319,402	$11,419,163
Self Insurance Restricted Funds	43,169	41,722
Insolvent Estates	22,391,670	23,547,632
	32,754,241	***35,008,517***

Texas Title Insurance Guaranty Association

Audited Financial Statements

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 2001. 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, 2001 through August 31, 2002.

Statement of Financial Position, December 31, 2001 and 2000

	2001	2000
Assets		
Current Assets		
Cash and Cash Equivalents (Note 2)	$3,526,782	$4,200,002
Other Assets	19,112	39,710
Total Assets	***3,545,894***	***4,239,712***
Liabilities and Fund Balance		
Current Liabilities		
Accounts Payable and Accrued Expenses	83,655	64,199
Total Liabilities	***83,655***	***64,199***
Commitments and Contingencies (Note 3)	—	—
Fund Balances		
Current Unrestricted	3,462,239	44,175,513
Total Liabilities and Fund Balance	***3,545,894***	***4,239,712***
Revenue		
Recoveries	5,107	3,829
Interest	133,047	243,470
Gain on Sale of Assets	—	100,081
Total Revenue	***138,154***	***347,380***

Statements of Activities and Changes in Net Assets For the Years Ended December 31, 2001 and 2000

	2001	2000
Expenses		
Examiners' Fees	$817,665	$730,168
Administrative Costs:		
Legal and Professional	21,123	26,466
Accounting and Auditing	10,500	10,500
Board Members' Expense	516	1,969
Other	1,624	2,565
	33,763	41,500
Total Expenses	***851,428***	***771,668***
Revenue over (under) Expenses	(713,274)	(424,288)
Fund Balance–Beginning	4,175,513	4,599,801
Fund Balance–Ending	***3,462,239***	***4,175,513***

Statements of Cash Flow For the Years Ended December 31, 2001 and 2000

	2001	2000
Cash Flows from Operating Activities:		
Excess of Revenues over (under) Expenses	$(713,274)	$(424,288)
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable	19,456	(192,693)
Total Adjustments	19,456	(192,693)
Net Cash (Used) Provided by Operating Activities	***(693,818)***	***(616,981)***
Cash Flows from Investing Activities:		
Accrued Increase Income	20,598	(20,598)
Land Sold	—	70,771
Net Cash (Used) Provided by Investing Activities	***20,598***	***50,173***
Net Increase (Decrease) in Cash and Cash Equivalents	(673,220)	(566,808)
Cash Equivalents, Beginning of Year	4,200,002	4,766,810
Cash Equivalents, End of Year	***3,526,782***	***4,200,002***

Notes to Financial Statements, December 31, 2001 and 2000

These notes are an integral part of the financial statements.

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.

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 Association has revised the financial statements to 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. 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 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.

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 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.

Fund Accounting–To ensure observance of limitations and restrictions placed on the use of resources available to the Association the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting purposes into funds established according to their nature and purposes.

The Association uses the following fund:

Current Funds–funds available for current operating purposes.

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 fair value. Realized and unrealized gains and losses are reported in the statement of revenues, expenses and changes in fund balance.

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:

	2001	2000
Cash on Deposit	$94,173	$94,310
Certificates of Deposit	473,918	0
Mutual Funds	2,958,691	4,105,692
	3,526,782	***4,200,002***

Cash on Deposit exceeded federally insured limits by approximately $210,458 at December 31, 2001.

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.

5 Investments

The Association's temporary investments are comprised of investments in U.S. Government mutual funds. 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.

Investments held by the Association at December 31, 2001 and 2000 were considered Category 2 investments as defined by Governmental Accounting Standards Board Statement No. 3.

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