Part III

Liquidator's and Conservator's Report

This section of the *128th 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, 2002–August 31, 2003

	EXISTING	NEW	FY2003 YEAR-END BALANCES
Domestic			
Stock Life			
Stipulated Premium			
Local Mutual Aid		1	
Fraternal			
Fire and/or Casualty	2	1	
Lloyds			
Reciprocal Exchanges	1		
Surplus Lines Insurers			
Managing General Agents	1	2	1
Local Recording Agents	1		1
Agencies	1	2	
Premium Finance Company			
Title			
Title Agents			
Health Maintenance Organization	3		
Third Party Administrators	2		
Utilization Review Agents			
Employee Group Benefit Plan			
Unauthorized Insurers			
Foreign			
Totals	***11***	***6***	***2***

Summary of Conservatorships
September 1, 2002–August 31, 2003

	EXISTING	NEW	FY2003 YEAR-END BALANCES
Domestic			
Stock Life	1		
Stipulated Premium		1	
Local Mutual Aid			
Fraternal			
Fire and/or Casualty		3	1
Lloyds		1	
Reciprocal Exchanges			
Surplus Lines Insurers			
Managing General Agents			
Local Recording Agents			
Agencies			
Premium Finance Company			
Title			
Title Agents			
Health Maintenance Organization		1	
Third Party Administrators		1	
Utilization Review Agents			
Employee Group Benefit Plan			
Unauthorized Insurers			
Foreign			
Totals	***1***	***7***	***1***

Summary of Insurers under Special Administrative Action
September 1, 2002–August 31, 2003

	EXISTING	NEW	FY2003 YEAR-END BALANCES
Domestic			
Stock Life	6	1	7
Stipulated Premium		4	4
Local Mutual Aid		1	1
Fraternal			
Fire and/or Casualty	11	2	3
Lloyds	2		1
Reciprocal Exchanges			
Surplus Lines Insurers			
Managing General Agents		1	1
Local Recording Agents			1
Agencies			
Premium Finance Company	1		1
Title			
Title Agents			
Health Maintenance Organizations	3	1	2
Third Party Administrators	3		1
Utilization Review Agents			
Employee Group Benefit Plan		1	1
Unauthorized Insurers			
Foreign	**3**		
Totals	***29***	***11***	***23***

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
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
2003	*41	24	0	6	8	13	12	26

Note: *FY2003/Other Changes: 4 Entities moved from Supervision to Article 1.32; 3 moved from Supervision to Conservatorship; 2 moved from Administrative Oversight to Conservatorship; 1 moved from Agreement Letter to Article 1.32; 1 moved from Article 1.32 to Conservatorship; 1 moved from Supervision to Administrative Oversight.*

** One company had two active Commissioner's Orders at the same time at the beginning of the fiscal year.*

Companies in Supervision
at beginning of Fiscal Year 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
02-0350	04/08/02	Aberdeen Insurance Services
02-0830	08/12/02	AmCare Health Plans of Texas
02-0831	08/12/02	AmCare Management Inc.
02-0495	05/13/02	Confidential*
02-0820	08/06/02	Coordinated Care Solutions of Texas, Inc.
01-0617	07/02/01	Medical Pathways Management Texas, Inc.
01-0616	07/02/01	Medical Select Management
02-0551	05/29/02	Confidential*
02-0499	05/14/02	Robert Edward Osmundsen
02-0498	05/14/02	Thomas G. Corless
02-0327	04/04/02	Confidential*

** Confidential pursuant to Texas Statute*

Companies in Conservatorship at beginning of Fiscal Year 2003

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

** Confidential pursuant to Texas Statute*

Art. 1.32/Insurers under Special Administrative Action at beginning of Fiscal Year 2003

ACTION	DATED	COMPANY NAME
Art 1.32/02-0876	08/20/02	Aberdeen Insurance Company
Art 1.32/98-0518	05/07/98	American Insurance Company of Texas
Agreement Letter	04/20/01	American Professionals Insurance Company
Art. 1.32/02-0191	03/04/02	Colonial Casualty Insurance Company
Art. 1.32/96-0402	04/11/96	Commercial Indemnity Insurance Company
Letter	01/13/02	Dallas General Life Insurance Company
Letter	06/24/97	Empire Lloyds Insurance Company
Art. 1.32/01-0385	04/30/01	Frontier Insurance Company
Art. 1.32/02-0880	08/20/02	Highland Underwriters Insurance Company
Art. 1.32/02-0877	08/20/02	Highlands Casualty Company
Art. 1.32/02-0878	08/20/02	Highlands Insurance Company
Art. 1.32-02-0879	08/20/02	Highlands Lloyds
Letter	04/22/02	HHS Texas Management, L.P.
Art 1.32/01-0122	02/09/01	Jefferson Life Insurance Company
Letter	03/22/99	Mack H. Hannah Life Insurance Company
Letter	12/19/00	Millers Insurance Company
Art. 1.32/98-0520	05/07/98	National Financial Insurance Company
Agreement Letter	04/20/01	Northwestern National Casualty Company
Agreement Letter	04/20/01	PacifiCare of Texas, Inc.
Art. 1.32/92-0903	09/16/92	Provident American Insurance Company
Art. 1.32/01-1000	10/18/01	Provident Indemnity Life Insurance
Art. 1.32/02-0121	02/06/02	QualityCare Network of Texas, Limited
Agreement Letter	11/28/01	SelectCare of Texas, LLC
Letter	05/17/02	Texas Builders Insurance Company
Art. 1.32/02-0760	07/23/02	The Aries Insurance Company
Letter	06/20/01	Universal Acceptance Company, Inc.
Art. 1.32/01-0913	09/21/01	WellCare Health Plans/TX
Letter	12/03/01	WellMed Medical Management, Inc.
Art. 1.32/01-0886	09/14/01	Western Indemnity Insurance Company

Companies Placed in Supervision between September 1, 2002 and August 31, 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
03-0076	02/03/03	Crouch Insurance Consulting, Limited, LLP†
03-0077	02/03/03	Crouch Property Owners & Managers Limited, LLP†
03-0078	02/03/03	Gregory Kyle Crouch†
03-0094	02/02/03	Confidential*†
03-0127	02/26/03	Confidential*†
03-0495	06/16/03	Reliant American General Agency

** Confidential pursuant to Texas Statute*
† New company

Companies Placed in Conservatorship between September 1, 2002 and August 31, 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
02-1018	09/27/02	AmCare Health Plans of Texas
02-1019	09/27/02	AmCare Management Inc.
02-1176	11/13/02	Confidential*
03-0075	02/02/03	Confidential*
03-0186	03/20/03	Confidential*†
03-0316	04/28/03	Confidential*

** Confidential pursuant to Texas Statute*
† New company

Insurers under Special Administrative Action
between September 1, 2002 and August 31, 2003

ACTION	DATED	COMPANY NAME
Art. 1.32/02-1068	10/11/02	Thomas G. Corless
Art. 1.32/02-1066	10/11/02	Universal Insurance Exchange
Art. 1.32-02-1130	10/31/02	Commercial Indemnity Insurance Company
Art. 1.32/03-0141	03/03/03	Coordinated Care Solutions of Texas
Art. 1.32/03-0162	03/12/02	Northwestern National Casualty Company
Art. 1.32/03-0543	06/27/03	Texas Propane Gas Association Employee's Benefit Trust†
Letter	06/16/03	Regal Life of America Insurance Company†
Letter	06/16/03	Southwest Service Life Insurance Company†
Letter	06/16/03	Capitol Security Life Insurance Company†
Letter	06/16/03	International American Life Insurance Company†
Letter	06/16/03	United Assurance Life Insurance Company†
Letter	06/16/03	People Funeral Service Insurance Corporation

† *New company*

Companies Released from Supervision
between September 1, 2002 and August 31, 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
02-1130	10/31/02	Commercial Indemnity Insurance Company
02-1090	10/23/02	Thomas G. Corless
02-1092	10/23/02	Universal Health Insurance
02-1091	10/23/02	Robert Edward Osmundsen
02-1168	11/12/02	Old American County Mutual Fire Insurance Company
03-0375	05/12/03	Gregory Kyle Crouch
03-0376	05/12/03	Crouch Insurance Consulting, Limited, LLP
03-0377	05/12/03	Crouch Property Owners & Managers, Limited, LLP
03-0724	08/11/03	Peoples Funeral Service Insurance Company

Companies Released from Conservatorship
between September 1, 2002 and August 31, 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
03-0474	06/11/03	Western Indemnity Insurance Company
03-0655	07/22/03	Good Samaritan Life Insurance Company
03-0738	08/14/03	Guaranty Insurance & Annuities
03-0379	08/14/03	AmCare Health Plans of Texas, Inc.
03-0740	08/14/03	AmCare Management, Inc.

Insurers Released from Special Administrative Action
between September 1, 2002 and August 31, 2003

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
02-0992	09/24/02	Colonial Casualty Insurance Company
Letter	11/06/02	Universal Acceptance Company, Inc.
02-1245	12/02/02	The Aries Company
02-1321	12/20/02	QualityCare Network of Texas
Letter	12/13/02	WellMed Management, Inc.
03-0034	01/16/03	Aberdeen Insurance Company
03-0035	01/16/03	Highlands Casualty Company
03-0036	01/16/03	Highlands Lloyds
03-0037	01/16/03	Highlands Underwriters Insurance Company
Letter	03/21/03	Pacificare of Texas, Inc.
03-0309	04/25/03	Wellcare Health Plans of Texas, LLC
03-0568	07/01/03	Northwestern National Casualty Company

Insurance Companies and Affiliates in Receivership
as of August 31, 2003

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
450	Texas Employers Insurance Association	91-1681	201st
461	Sir Lloyd's Insurance Company	91-12765	200th
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
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 Company	99-02772	250th
504	Unistar Insurance Company	GV000639	390th
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
511	Legion Insurance Company & Villanova Insurance Company	GV203880	200th
512	AmCare Health Plans of Texas, Inc.	GV204523	200th
513	Empire Lloyds Insurance Company/Lloyds Insurance Holding Company, Inc	GV204662	201st
514	Millers Insurance Company	GV3-00620	345th
515	Guaranty Insurance and Annuities Company	GV-300294	353rd
516	Western Indemnity Insurance Company	GV302024	261st
517	Good Samaritan Life Insurance Company	GV3-02700	345th

Receiverships by Fiscal Year
New Receiverships/Receiverships Closed

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

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

† *These numbers reflect one ancillary receivership.*

Consolidated Receiverships
Balance Sheet

	08/31/2003	08/31/2002
Cash Assets		
Operating Account	$4,015,648	$8,787,474
Texas Treasury Account	120,466,186	99,408,937
Court Approved Deposits	25,000	578,173
Early Access/Texas GA	111,052,459	305,071,500
Early Access/Other GAs	98,484,039	93,925,634
Assets/for recovery		
Funds Restricted	9,827,923	787,303
Premiums	13,408,227	22,086,620
Agent Balances	984,118	270,224
Reinsurance	50,316,203	40,954,504
Subrogation	4,267,588	8,074,151
Other	34,607,365	34,986,488
Allowance for Recovery	(54,799,612)	(53,560,616)
Stocks/Bonds	13,815,737	10,492,318
Real Estate	0	163,722
Mortgages/Notes	491,105	490,293
Other	31,261,290	22,385,083
Allowance for Recovery	(30,478,593)	(23,748,878)
Furniture & Fixtures	57,202	319,311
Computers/Software	300	0
Home Office Building	3,000,000	9,569
Allowance for Recovery	(3,000)	(283,818)
Total Assets	*410,799,184*	*571,197,992*
Company Liabilities		
Class I Reserves-GA	5,608,993	11,444,626
Class II Claims Reserves-GA	188,161,274	452,270,109
Class II Claims Reserves-Non-GA	114,159,681	87,609,145
Other Liabilities	54,250,071	88,467,252
Class I Creditors		
SDR Fees	444,075	413,388
SDR Sub-Contractors	310,784	263,984
Receivers Allocation	40,787	16,906
GA-Claims Expense	56,891,967	59,408,203
Other Class I	8,862,829	4,976,896
Class II Creditors		
Policyholder Claims	48,295,115	51,157,759
GA-Policyholder Claims Paid	405,405,029	478,325,035
Other Class II	2,806,533	5,017,470
Class III Creditors		
IRS Payable	432,255	1,394,205
Other Class III Payable	68,513,023	2,307,423
Class IV Payable		
General Creditors	2,828,167	4,490,605
Reinsurance Payable	41,477,968	39,116,920
Other Class IV	185,032	69,266,933
Class V Creditors		
Surplus Debentures	0	0
Ownership Interests	939,117	1,009,069
Other Class V	0	0
Total Company Liabilities	*999,612,700*	*1,356,955,928*
Accumulated (Loss) Equity	(581,393,053)	(779,882,517)
Unrealized Recovery	(7,420,464)	(5,875,418)
Total Liabilities and Equity	***410,799,182***	***571,197,992***

Statement of Receipts and Expenditures

	08/31/2003	08/31/2002
Funds Held		
Funds Held for Others	(5,215,901)	$1,305,089
Funds Held for Others Expense	(1,942,138)	(184,913)
Premium		
Collections	2,333,455	4,733,798
Collection Expense	(265,222)	(1,359,003)
Litigation Expense	(11,408)	(49,480)
Receivable		
Agents Balance Receipts	331,219	91,798
Agents Balance Expense	(15,500)	(4,874)
Reinsurance Recovery	7,370,502	16,549,262
Reinsurance Expense	(945,825)	(976,259)
Subrogation Recovery	242,542	157,900
Subrogation Expense	(171,766)	(120,303)
Intercompany Receivable Receipts	0	0
Intercompany Receivable Expenses	0	0
Other Receivable Receipts	8,977,837	4,781,863
Other Receivable Expenses	(658,949)	(642,088)
Litigation Receivable		
D & O Litigation Recovery	2,193,559	100,000
D & O Litigation Expense	(1,135,835)	(220,872)
Judgment/Settlement Collections	1,040,718	312,689
Judgment/Settlement Expense	(18,333)	(96,995)
Investment Account Receipts	427,935	0
Investment Account Expense	(4,942)	(765)
Other Litigation Receipts	800,000	0
Other Litigation Expense	(91,157)	(151,908)
Sale/Conversion of Investment Assets		
Securities/Bonds Sales Receipts	7,654,089	0
Securities/Bonds Sales Expense	(15,918)	(8,743)
Statutory Deposit Receipts	10,351,774	1,375,165
Statutory Deposit Expense	(117,404)	(61,913)
Real Estate Sales Receipts	319,789	54,167
Real Estate Sales Expense	(47,503)	(113,146)
Mortgage Note Expense	(47,490)	(980)
Subsidiary Affiliate Receipts	0	139,921
Subsidiary Affiliate Expense	(11,125)	(8,334)
Other Assets Receipts	169,723	227,219
Other Assets Sales Expense	(489,106)	(224,013)
Sale of Company Fixed Assets		
Charter Sales Receipts	0	0
Charter Sales Expense	(2,954)	(1,728)
Furniture, Fixtures & Equipment Receipts	183,493	51,440
Furniture, Fixtures & Equipment Expense	(51,134)	(431)
Company Real Estate Receipts	471,493	5,000
Company Real Estate Expense	(323,616)	(18,944)
Other Fixed Asset Receipts	5,513	1,890
Other Fixed Asset Expense	(672)	(1,432)
Net Income from Assets/Receivable	*38,447,783*	*25,619,986*
Passive Income		
Investments Interest/Dividends	643,294	79,347
Cash Deposit Interest Income	1,882,437	2,591,113
Early Access Imputed Interest Income	3,759,177	6,053,325
Net Income/Including Passive	*44,732,690*	*34,343,771*
Claims Expenses		
Covered Claims Expense		
GA Expense	(3,374,100)	(4,466,472)
SDR Fees	(346,034)	(686,141)
SDR Subcontractor Fees	(67,452)	(246,761)
Other Covered Claims	(8,187)	(47,042)
Non Covered Claims Expenses		
SDR Fees	(1,580,354)	(1,115,541)
SDR Subcontractor Fees	(535,981)	(205,840)
Other Non Covered Claims	(52,335)	(23,916)

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Consolidated Receiverships

Statement of Receipts and Expenditures *(continued)*

Claims Paid/Distribution		
Covered Claims Funded-GA	12,863,970	19,522,973
Covered Claims Paid-GA	(13,143,852)	(19,277,498)
Early Access-GA	188,130,470	(36,192,443)
Non-Covered Claims Paid/Receivership Distribution	(197,491,792)	(30,786,130)
Total Claims Expenses	*(15,605,647)*	*(73,524,811)*
Class I General Administration Expenses		
Liquidation Division Expense	(119,565)	(2,872)
Bank/Miscellaneous Charges	(26,736)	(33,642)
Building/Utilities	(275,555)	(297,828)
Contract/Employee	(434,606)	(44,945)
Equipment/Lease/Maintenance	(365,430)	(345,824)
Employee-Payroll, PRTax, Benefits	(68,302)	(573)
Equipment Lease/Inventory/Storage/Moving	(202,753)	(630,206)
Mailing/Printing/Postage/Publication	(112,958)	(42,341)
Office Supplies/Miscellaneous	(48,882)	(268,848)
Telephone	(72,795)	(24,864)
Receivership Allocation	(347,298)	(255,477)
Total Class I General Administration Expenses	*(2,074,880)*	*(1,947,420)*
Class I Subcontractor Administration Expenses		
Accounting/Auditing/Federal Income Tax Service	(154,257)	(73,051)
Consulting Fees/Services	(210,975)	(118,636)
Legal Fees/Services	(461,651)	(422,909)
Class I SDR Administrative Expenses		
SDR Administration	(1,177,657)	(1,238,025)
SDR Accounting	(556,563)	(464,057)
SDR Special Services	(322,979)	(758,918)
SDR Legal Services	(121,383)	(111,769)
Total Receivership Administrative Expenses	*5,080,345*	*(5,134,785)*
Net Increase (Decrease) to Receivership Cash	24,026,604	(44,500,737)
FY 2003 Reconciliation Adjustments	(13,700,377)	(6,792,001)
Cash Available as of 8/31/03	***126,230,553***	***108,697,298***

Texas Property and Casualty Insurance Guaranty Association

Audited Financial Statements, December 31, 2002

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 2002. 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, 2002 through August 31, 2003.*

Statement of Financial Position, December 31

	2002	2001
Assets		
Current Assets:		
Cash and Cash Equivalents (Notes 1 and 2)	$9,016,484	$5,056,338
Investments, at Fair Value (Note 3)	414,013,384	371,447,905
Assessments Receivable	60,095,381	86,161,687
Accounts Receivable–Other	4,451	127,851
Total Current Assets	*483,129,700*	*462,793,781*
Noncurrent Assets:		
Loans Receivable (Note 5):		
Administrative	$30,636,380	$20,676,904
Auto	119,073,273	112,433,452
Other Lines	80,750,981	74,679,293
Workers' Compensation	238,046,025	181,113,588
Total Loans Receivable	468,506,659	388,903,237
Allowance for Doubtful Accounts (Notes 1 and 5)	—	(388,903,237)
Net Loans Receivable	—	—
Property and Equipment (Note 1):		
Furniture and Equipment	780,242	649,916
Computer Systems	1,488,276	1,427,268
Telephone Systems	169,395	167,778
Company Vehicles	28,650	14,413
Leasehold Improvements	81,191	81,191
Accumulated Depreciation	(1,924,465)	(1,730,196)
Net Property and Equipment	*623,289*	*610,370*
Total Noncurrent Assets	*623,289*	*610,370*
Total Assets	***$483,752,989***	***$463,404,151***
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$440,120	$407,308
Employee Health Claims	—	69,242
Outstanding Checks	4,785,931	1,774,473
Current Portion of Claims Payable (Note 6)	120,000,000	42,000,000
Total Current Liabilities	*125,226,051*	*44,251,023*
Long-Term Liabilities:		
Claim Liabilities (Note 6):		
Loss Adjustment Expense	28,950,792	12,821,522
Auto	19,412,506	24,563,435
Other Lines	76,532,910	27,019,601
Workers' Compensation	390,259,392	308,783,005
Total Long Term Claim Liabilities	*515,155,600*	*373,187,563*
Other Long Term Liabilities:		
Early Access Distribution (Note 6)	26,565,402	27,811,472
Total Other Long Term Liabilities	*26,565,402*	*27,811,472*
Total Long Term Liabilities	*541,721,002*	*400,999,035*
Total Liabilities	*$666,947,053*	*$445,250,058*
Net Assets (Deficit), Unrestricted (Note 7)	(183,194,064)	18,154,093
Total Liabilities and Net Assets	***$483,752,989***	***$463,404,151***

Texas Property and Casualty Insurance Guaranty Association

Statement of Activities and Changes in Net Assets for the Year ended December 31

Revenues:		
Distributions	$9,582,532	$30,795,366
Assessments	59,165,397	86,161,687
Investment Income, Net (Note 10)	41,637,687	28,375,898
Interest on Accounts	129,061	158,860
Subrogation and Salvage Recoveries	858,859	168,479
Miscellaneous Income	534	11,986
Total Revenues	*111,374,070*	*145,672,276*
Claims Activity:		
Claims Payments:		
Claims Administration	13,741,055	3,121,595
Auto	6,903,443	519,292
Other Lines	6,699,676	2,233,971
Workers' Compensation	61,066,950	24,642,805
Total Claims Payments	88,411,124	30,517,663
Change in Claims Liabilities	218,721,966	96,628,407
Total Claims Activity	*307,133,090*	*127,146,070*
Refunds of Prior Year Assessments	—	2,276,986
Excess (Deficiency) of Revenues over Claims Activity and Refunds	(195,759,020)	16,249,220
Operating Expenses:		
Employment Expenses	$3,257,379	$2,848,058
Employee Relations	9,547	6,570
Education and Staff Development	53,009	48,079
Contract Labor	20,621	12,816
Legal Fees	44,350	12,425
Audit Fees	14,500	14,500
Consulting	—	44,158
Leasehold Improvements	7,387	2,301
Office Rent and Overhead	588,086	562,270
Insurance	96,655	76,818
Furniture & Equipment	3,660	3,546
Equipment Rental	67,247	44,945
Computer Systems	594,871	444,843
Telephone	62,107	57,807
Office Supplies	116,092	37,014
Postage & Delivery	193,831	87,928
Printing	18,795	8,525
Advertising-Employee Procurement	579	758
Travel	58,338	33,974
Professional Meetings	35,665	23,180
Reference Materials	12,953	15,631
Subscriptions & Professional Dues	73,248	66,681
Property Taxes	8,998	11,456
Bank Charges	56,950	34,922
Depreciation Expense	194,269	156,581
Total Operating Expenses	*5,589,137*	*4,655,786*
Increase (Decrease) in Net Assets	(201,348,157)	11,593,434
Gain (Loss) on Sale of Property and Equipment	—	3,692
Beginning Net Assets (Deficit) at January 1	18,154,093	6,556,967
Net Assets (Deficit) at December 31	***$(183,194,064)***	***$18,154,093***

Texas Property and Casualty Insurance Guaranty Association

Statement of Cash Flows for the Years ended December 31

	2002	2001
Cash flows from Operating Activities:		
Decrease in Net Assets	$(201,348,157)	$11,593,434
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	194,269	156,581
Unrealized Gains (Losses) on Investments	(6,855,117)	(2,256,368)
Change in Assets and Liabilities:		
(Increase) Decrease in Assessments Receivable	26,066,307	(86,161,687)
(Increase) Decrease in Other Assets	123,400	(3,529)
Increase (Decrease) in Claims Liabilities	218,721,966	96,628,407
Increase (Decrease) in Other Liabilities	2,975,029	46,470
Total Adjustments	*241,225,854*	*8,409,874*
Net Cash (Used) Provided by Operating Activities	39,877,697	20,003,308
Cash Flows from Investing Activities:		
Capital Expenditures	(207,188)	(222,190)
Sale of Property and Equipment	—	3,809
Gain (Loss) on Sale of Property and Equipment	—	3,692
Purchase of Investments	(995,897,779)	(444,061,497)
Proceeds from Sales and Maturity of Investments	960,187,416	423,068,687
Net Cash (Used) Provided by Investing Activities	(35,917,551)	(21,207,499)
Net Increase (Decrease) in Cash and Cash Equivalents	3,960,146	(1,204,191)
Cash and Cash Equivalents at January 1	5,056,338	6,260,529
Cash and Cash Equivalents at December 31 (Note 2)	***$9,016,484***	***$5,056,338***

The following notes are an integral part of these financial statements

Notes to Financial Statements, December 31, 2002

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% of the portfolio. The balance of derivatives at December 31, 2002, and 2001, represented 2.2% and 11.9%, 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:

	2002	2001
Cash in Bank	$(22,932)	$90,926
Cash on Hand	300	300
Mutual Funds	9,039,116	4,965,112
	$9,016,484	***$5,056,338***

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, 2002, the Association maintained demand accounts with bank balances in excess of federally insured limits of $4,529. The carrying value of these demand accounts, resulting from uncollected items and outstanding checks, was $(22,932) in 2002 and $90,926 in 2001.

3 Investments

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

A Direct security repurchase agreements (underlying security must be U.S. Treasury securities);

B Reverse security repurchase agreements (underlying security must be U.S. Treasury securities);

C Direct obligations of or obligations where the principal and interest of which are guaranteed by the United States;

D Direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government;

E Bankers' acceptances that:

- are eligible for purchase by the Federal Reserve System;
- do not exceed 270 days to maturity; and
- are issued by a bank that has received the highest short-term credit rating by a nationally recognized investment rating firm;

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

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

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

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

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

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

L Mortgage-backed Pass-through Securities must be AAA rated by Standard & Poor's or Moody's and have prepayment assumptions of ten years or less if they have price liquidity characteristics documentably similar to ten-year or shorter investments. The total aggregate of Mortgage-backed Pass-through Securities cannot exceed 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:

2002	**FAIR VALUE**	**% OF FAIR VALUE**
U. S. Treasury Issues	$205,900,200	49.8%
Federal Agency Issues	185,969,976	44.9%
Mortgage-backed Pass-through Securities (Derivatives)	9,181,504	2.2%
Cash Equivalents	7,932,944	1.9%
Accrued Interest	5,028,760	1.2%
Total at December 31, 2002	*$414,013,384*	*100.0%*

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%*

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, 2002 and 2001 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 (2001):

LINE-OF-BUSINESS	PREMIUM BASE	ASSESSMENT CAPABILITY
Automobile	$10,879,513,797	$217,590,276
Other Lines	8,341,749,560	166,834,991
Workers' Compensation	4,216,440,646	84,328,813
	$23,437,704,003	*$468,754,080*

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 Net Assets

The Association has the authority to assess members as necessary in subsequent years to meet its responsibility to pay claims of these impaired companies. Assessment ability and recorded claims liability at December 31, 2002, are as follows:

LINE-OF-BUSINESS	CLAIMS PAYABLE	ANNUAL ASSESSMENT CAPABILITY
Automobile	$19,412,506	$217,590,276
Other Lines	76,532,910	166,834,991
Workers' Compensation	390,259,392	84,328,813
Loss Adjustment Expenses	28,950,792	No Limit
Total	*515,155,600*	
Current	120,000,000	
Long Term	$635,155,600	

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	
2003	$526,188
2004	488,458
	$1,014,646

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 investments manager's fees realized throughout the year. Gross earnings for 2002 were $44,179,985 (including $6,855,117 in unrealized gains, $18,886,441 in realized gains and security lending income of $568,315), net of realized losses of $2,114,505, custodian fees of $25,412, and investment manager's fees of $402,381, resulting in net investment income of $41,637,687. 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.

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, 2002, and 2001, were $135,246 and $127,025, respectively. The employees contributed $166,265 and $171,158 for 2002 and 2001, 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 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 2002, the Association contracted with insurance carriers for property and general liability insurance.

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

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Audited Financial Statements, December 31, 2002 and 2001

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 2002. 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 2003 that runs from September 1, 2002 through August 31, 2003.*

Statements of Financial Position, December 31, 2002 and 2001

	2002	2001
Assets		
Cash and Cash Equivalents	$90,847,427	$99,888,823
Investments	26,000	26,000
Receivables:		
Billed Assessments, Net of Allowance of $2,086,790 and $1,965,270	153,733	605,904
Other Receivables	58,847	10,646
Unbilled Assessments	64,764,830	70,623,293
Proofs of Claim, Net of Allowance of $328,995,253 and $311,240,294	7,019,779	11,186,805
Computer Equipment	34,201	—
Total Assets	*$162,904,817*	*$182,341,471*
Liabilities and Net Assets		
Liabilities:		
Accounts Payable	$809,899	$771,464
Accrued Expenses	32,690	38,223
Estate Refunds Payable	4,343,822	4,804,458
Insurance Contractual Obligations	126,099,945	143,973,085
Total Liabilities	*131,286,356*	*149,587,230*
Net Assets:		
Restricted	31,618,461	32,754,241
Total Liabilities and Net Assets	$162,904,817	$182,341,471

Statements of Activities and Changes in Net Assets for the Years ended December 31, 2002 and 2001

	2002	2001
Revenues		
Assessments	$7,700,492	$30,821,449
Change in Unbilled Assessments	(5,858,461)	(30,424,307)
Estate Recoveries	8,754,652	9,632,056
Change in Proofs of Claim, Net of Allowance	(4,167,025)	7,510,493
Interest	1,841,882	3,196,912
Premiums	3,718,138	7,975,880
Other	—	(2,561)
Total Revenues	*11,989,678*	*28,709,922*
Expenses		
Claims:		
Change in Insurance Contractual Obligations	(17,873,139)	(14,068,448)
Claims Paid	10,802,801	19,051,898
Assumptive Reinsurance Agreements	9,153,704	4,998,927
Third-Party Administrators	568,234	2,011,011
National Task Forces	925,668	984,381
	3,577,268	12,977,769
Refund of Prior Years' Assessments	7,954,836	16,142,300
Administrative Costs:		
Legal and Professional	175,334	209,381
Management Service Contract	1,231,800	1,423,800
Other	186,220	210,948
	1,593,354	1,844,129
Total Expenses	*13,125,458*	*30,964,198*
Change in Net Assets	(1,135,780)	(2,254,276)
Net Assets–Beginning of Year	32,754,241	35,008,517
Net Assets–End of Year	***$31,618,461***	***$32,754,241***

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Statements of Cash Flows for the Years Ended December 31, 2002 and 2001

	2002	2001
Cash Flows from Operating Activities:		
Change in Net Assets	$(1,135,780)	$(2,254,276)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Allowance for Billed Assessments Receivable	121,520	243,836
Allowance for Uncollectible Proofs of Claim	17,754,959	11,590,506
(Increase) Decrease in Assets:		
Billed Assessments Receivable	330,651	(430,180)
Premiums Receivable	—	7,434,041
Other Receivables	(48,201)	14,563
Unbilled Assessments	5,858,463	30,424,308
Proofs of Claim Filed	(22,342,585)	(28,733,056)
Increase (Decrease) in Liabilities:		
Accounts Payable	38,435	13,958
Accrued Expenses	(5,533)	(1,635,955)
Estate Refunds Payable	(460,636)	(2,430,065)
Insurance Contractual Obligations	(17,873,140)	(14,068,448)
Net Cash Provided by (Used in) Operating Activities	*(17,761,847)*	*169,232*
Cash Flows from Investing Activities:		
Purchase of Furniture and Equipment	(34,201)	—
Estate Recoveries	8,754,652	9,632,056
Net Cash Provided by Investing Activities	*8,720,451*	*9,632,056*
Net Increase (Decrease) in Cash and Cash Equivalents	(9,041,396)	9,801,288
Cash and Cash Equivalents–Beginning of Year	99,888,823	90,087,535
Cash and Cash Equivalents–End of Year	***$90,847,427***	***$99,888,823***

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

Notes to Financial Statements, December 31, 2002 and 2001

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

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

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 with a management company to provide day-to-day management services to 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 periodically, with the last contract period ending December 31, 2002.

At December 31, 2002, the Association owed the management company $94,650 for management fees.

As further discussed in Note 10, the structure of the Association's management was changed, effective January 1, 2003, with the employment of an Executive Director and Chief Operating Officer to manage the daily operations and meet the responsibilities of the Association as set forth in the Act.

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(j)). 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. Claim liabilities are recognized using estimates of contractual obligations for each impaired insurer at the date of impairment or issuance of an order of liquidation based on a finding of insolvency by a court of competent jurisdiction. Projected claim liabilities are reviewed and revised periodically as information related to the obligations of the individual insolvent member companies is obtained.

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

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

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.

Computer Equipment–Computer equipment is stated at cost. The Association capitalizes computer equipment with estimated useful lives greater than one year and an acquisition cost greater than $500. Depreciation is computes using the straight-line method over the estimated useful lives of the assets, three to five years.

All computer equipment was purchased at the end of 2002. Therefore, no depreciation expense has been recognized in the financial statements for 2002.

Notes to Financial Statements, December 31, 2002 and 2001

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 generally accepted accounting 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, 2002 and 2001 were $90,986,762 and $104,442,859, 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 Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and cash equivalents–The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity of these instruments.

Unbilled assessment–The Association has the statutory ability to assess member insurer's amounts to meet corresponding insurance contractual obligations. The carrying amount and fair value of the unbilled assessment is derived from calculating the future cash flow which is required to meet the contractual obligations of each estate.

Proofs of claim–The fair value of proofs of claim (net of the allowance) is the amount the Association expects to collect in cash.

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.

Notes to Financial Statements, December 31, 2002 and 2001

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 assessable premium base for 2000 and 1999, which was used for the calculation of the 2002 and 2001 Class B assessments were as follows:

	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 2002 and 2001 was $7,700,492 and $30,821,449, respectively. The assessments levied were for two impaired companies in 2002 and five impaired companies in 2001. The Association collected approximately 99% and 97% of the total Class B assessment for 2002 and 2001 respectively, through 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 2002 and 2001, refunded to the member insurers $7,954,836 and $16,142,300 respectively.

Billed assessments receivable as of December 31, 2002 and 2001 (before an allowance) were $2,240,523 and $2,571,174, respectively. These unpaid assessments were levied in years 1991 through 2002. An allowance for uncollectible billed assessments in the amount of $2,086,790 and $1,965,270 has been recorded as of December 31, 2002 and 2001, respectively.

Unbilled assessments of $64,764,830 and $70,623,293 at December 31, 2002 and 2001, 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, 2002 and 2001, proofs of claim receivable on open estates (before an allowance) were $336,015,032 and $322,427,099, respectively.

Notes to Financial Statements, December 31, 2002 and 2001

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, 2002 and 2001, were $328,995,253 and $311,240,294.

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 at a rate which approximates that earned on short-term government securities. For the years ended December 31, 2002 and 2001, the following transactions occurred, which are not reflected in the financial statements since they relate to activity within the Association:

		ACTIVITY		
	BEGINNING OF YEAR	ADDITIONS	REPAYMENTS	END OF YEAR
2002				
Inter-account Loans	$166,647	$7,226,742	$(1,066,251)	$6,327,138
Inter-account Borrowings	$(166,647)	$(7,226,742)	$1,066,251	$(6,327,138)
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)

Interest of $81,679 and $704,449 was charged on these loans for the years ended December 31, 2002 and 2001, respectively.

7 Insurance Contractual Obligations

The liability for insurance contractual obligations is an estimated amount of future cash payments for all impaired or court ordered insolvent estates. The amounts are necessarily based on estimates, and the ultimate liability may vary significantly from the estimate. In addition, the liability is based on information supplied principally by third parties (receivers, third-party administrators and member participation task forces). As of December 31, 2002 and 2001, insurance contractual obligations were $126,099,945 and $143,973,085, respectively.

One open estate, Executive Life, comprised approximately 98% and 90% of the insurance contractual obligations at December 31, 2002 and 2001, respectively. The obligations related to the Executive Life estate are based on estimated cash flow projections to be paid through 2088 to the insurance company which acquired the business. Annually, a calculation of the amount which could be paid to settle the future funding obligation is performed by the company which acquired the business. This calculation is based on procedures and formulas laid out in an enhancement (purchase) agreement. The calculation resulted in a settlement calculation of approximately $61,500,000 and $62,200,000 as of December 31, 2002 and 2001. The settlement calculation does not include certain guaranteed issue contracts with future cash flows of approximately $7,400,000 and $7,900,000 as of December 31, 2002 and 2001.

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."

Notes to Financial Statements, December 31, 2002 and 2001

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, 2002, the Association has received approximately $102.7 million subject to such agreements.

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

As of December 31, 2002 and 2001, net assets reflected in the financial statements of the Association consisted of the following:

	2002	2001
Association's Continuing Administrative Expenses	$14,226,085	$10,362,571
Insolvent Estates	17,392,376	22,391,670
	$31,618,461	*$32,754,241*

10 Subsequent Event

As of January 1, 2003, the contract with the company providing day-to-day management services to the Association was cancelled. Under a new organizational structure, all employees of the management services company became employees of the Association. All leases, furniture, fixtures and tangible personal property utilized for the benefit of the Association were assumed and/or purchased from the management services company.

Texas Title Insurance Guaranty Association

Audited Financial Statements, December 31, 2002 and 2001

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 2002. 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, 2002 through August 31, 2003.*

Balance Sheets. December 31, 2002 and 2001

	2002	2001
Cash and Cash Equivalents	$1,981,747	3,526,782
Investments	718,329	—
Accrued income receivable	3,171	—
Other Assets	19,112	19,112
Total Assets	*$2,722,359*	*3,545,894*
Liabilities:		
Accrued Expenses	$75,543	83,655
Total Liabilities	75,543	83,655
Retained earnings		—
Equity	2,646,816	3,462,239
Total Liabilities and Retained Earnings	***$2,722,359***	***3,545,894***

Statements of Revenues, Expenses and Retained Earnings for the Years Ended December 31, 2002 and 2001

	2002	2001
Revenues:		
Interest	$51,380	$133,047
Net interest in fair market value of investments	3,162	—
Recovery–restitution	—	5,107
Total Revenues	*54,542*	*138,154*
Expenses:		
Accounting and Auditing	9,400	10,500
Board Meeting Expenses	576	516
Examiners	842,161	817,666
Insurance	946	762
Legal	16,016	21,123
Property taxes	866	861
Total Expenses	*869,965*	*851,428*
Deficit of revenues over expenses	(815,423)	(713,274)
Retained earnings at beginning of year	3,462,239	4,175,513
Retained earnings at end of year	***$2,646,816***	***$3,462,239***

Statements of Cash Flows for the Years Ended December 31, 2002 and 2001

	2002	2001
Operating Activities:		
Deficit of Revenues over Expenses	$(815,423)	$(713,274)
Net increase in the fair market of investments	(3,162)	—
Adjustments to Reconcile deficit of Revenues over Expenses to Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
Increase in Accrued Income Receivable	(3,171)	—
Decrease in other assets	—	20,598
(Decrease) increase in accrued expenses	(8,112)	19,456
Net Cash Used in Operating Activities	(829,868)	(673,220)
Financing activities:		
Net Cash Provided by Financing Activities	—	—
Investing Activities:		
Purchase of investments	(715,167)	—
Net Cash Used in Investing Activities	(715,167)	—
Net Decrease in Cash and Cash Equivalents	(1,545,035)	(673,220)
Cash and Cash Equivalents at Beginning of Year	3,526,782	4,200,002
Cash and Cash Equivalents at End of Year	***$1,981,747***	***$3,526,782***

Notes to Financial Statements, December 31, 2002 and 2001

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

1 Summary of Significant Accounting Policies

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

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

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

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

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

Notes to Financial Statements, December 31, 2002 and 2001

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

Restricted Assets–Substantially all of the Association's assets are restricted by virtue of the Act. The Association has approximately $1,450,000 and $1,452,000 of unrestricted retained earnings at December 30, 2002 and 2001, respectively.

Use of Estimates–The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.. Actual results could differ from those estimates.

2 Cash, Cash Equivalents and Investments

The Association's bank balances totaled approximately $294,566 and $310,458 as of December 31, 2002 and 2001, respectively. The Association's cash management practice includes deposit transfers to and from money market mutual fund accounts with the remainder covered by FDIC insurance. Occasionally, the timing of deposit receipt results in end-of-day bank balances exceeding the FDIC insurance levels. Cash in bank accounts exceeded federally insured limits by $194,566 and $210,458 at December 31, 2002 and 2001, respectively.

Cash and cash equivalents consisted of the following at December 31, 2002 and 2001.

	2002	2001
Cash on Deposit	$93,013	$94,173
Certificates of Deposit	190,000	473,918
Mutual Funds	1,698,734	2,958,691
	$1,981,747	*$3,526,782*

The Association is authorized to invest funds in mutual funds or direct obligations of or obligations where the principal and interest of which are guaranteed by the U.S. Government; mutual funds or direct obligations of or obligations guaranteed by agencies or instrumentalities of the U.S. Government; as well as, subject to certain restrictions, direct obligations of a state or an agency, county, city or other political subdivision of a state other than a municipal utility district, bankers acceptances, commercial paper, and mutual funds.

The Association's investments are categorized below as an indicator of credit and market risk. Category 1 includes investments that are insured by the Securities Investor Protection Corporation or held by the Association or its agent and listing the Association as owner. Category 2 includes uninsured investments held by the counterparty's agent buy listing the Association as owner. Category 3 includes uninsured investments held by the counterparty in their own name.

2002 INVESTMENTS		CATEGORY		FAIR VALUE
	1	2	3	
U.S. Treasury Bills	$718,329	—	—	$718,329
Total Investments				$718,329
2001 investments				
Total Investments	$—	—	—	$—

Notes to Financial Statements, December 31, 2002 and 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. At December 31, 2002 and 2001, no such liabilities existed.

4 Significant Group Concentrations of Risk

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

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