



Part III Liquidator's and Conservator's Report

This section of the Texas Department of Insurance's *130th 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, 2004-August 31, 2005

	EXISTING	NEW	FY2005 YEAR-END BALANCES
Domestic			
Stock Life	1	3	1
Stipulated Premium	0	3	3
Local Mutual Aid	0	0	0
Fraternal	0	0	0
Fire and/or Casualty	1	1	1
Lloyds	0	0	0
Reciprocal Exchanges	0	0	0
Surplus Lines Insurers	0	0	0
Managing General Agents	0	0	0
Local Recording Agents	0	0	0
Agencies	0	0	0
Premium Finance Company	0	0	0
Title	0	0	0
Title Agents	0	0	0
Health Maintenance Organization	0	2	0
Third Party Administrators	0	0	0
Utilization Review Agents	0	0	0
Employee Group Benefit Plan	0	0	0
Unauthorized Insurers	0	0	0
Foreign	1	0	0
Totals	3	9	5

Summary of Conservatorships

September 1, 2004-August 31, 2005

	EXISTING	NEW	FY2005 YEAR-END BALANCES
Domestic			
Stock Life	1	1	1
Stipulated Premium	0	0	0
Local Mutual Aid	0	0	0
Fraternal	0	0	0
Fire and/or Casualty	0	1	0
Lloyds	0	0	0
Reciprocal Exchanges	0	0	0
Surplus Lines Insurers	0	0	0
Managing General Agents	0	0	0
Local Recording Agents	0	0	0
Agencies	0	0	0
Premium Finance Company	0	0	0
Title	0	0	0
Title Agents	0	0	0
Health Maintenance Organization	0	1	1
Third Party Administrators	0	0	0
Utilization Review Agents	0	0	0
Employee Group Benefit Plan	0	0	0
Unauthorized Insurers	0	0	0
Foreign	0	0	0
Totals	1	3	2

Summary of Insurers under Special Administrative Action

September 1, 2004-August 31, 2005

	EXISTING	NEW	FY2005 YEAR-END BALANCES
Domestic			
Stock Life	6	1	6
Stipulated Premium	5	1	1
Local Mutual Aid	0	0	0
Fraternal	0	0	0
Fire and/or Casualty	2	0	1
Lloyds	0	1	1
Reciprocal Exchanges	1	0	1
Surplus Lines Insurers	0	0	0
Managing General Agents	1	0	0
Local Recording Agents	1	0	0
Agencies	0	0	0
Premium Finance Company	0	0	0
Title	0	0	0
Title Agents	1	0	1
Health Maintenance Organizations	1	0	1
Third Party Administrators	2	0	1
Utilization Review Agents	0	0	0
Employee Group Benefit Plan	1	0	1
Unauthorized Insurers	0	0	0
Foreign	1	0	1
Totals	22	3	15

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

FY	NUMBER NUMBER AT 1ST OF YEAR	RECEIVED DURING YEAR	CEASED REINSURED DISSOLVED	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
2004	26	14	1	0	3	5	5	26
2005	26	10	0	2	3	9	5	22

Note: FY2005/Other Changes: 3 From Supervision to Conservatorship, 1 From Conservatorship to Art. 1.32, 1 From Supervision to Administrative Oversight.

Companies in Supervision at Beginning of Fiscal Year 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-0425	05/03/04	*Confidential
04-0731	07/23/04	*Confidential
04-0789	08/13/04	*Confidential

*Confidential pursuant to Texas Statute.

Companies in Conservatorship at Beginning of Fiscal Year 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-0215	03/08/04	*Confidential

*Confidential pursuant to Texas Statute.

Art. 1.32/Insurers under Special Administrative Action
at Beginning of Fiscal Year 2005

ACTION	DATED	COMPANY NAME
Art.1.32 #98-0518	05/07/98	American Insurance Company of Texas
Letter	06/16/03	Capitol Security Life Insurance Company
Art. 1.32 #04-0540	05/28/04	Central United Life Insurance Company
Art.1.32 #03-0141	03/03/03	Coordinated Care Solutions of Texas
Letter	12/17/03	Dallas Fire Insurance Company
Letter	01/13/02	Dallas General Life Insurance Company
Art.1.32 #01-0385	04/30/01	Frontier Insurance Company
Letter	04/22/02	HHS Texas Management, L.P.
Letter	06/16/03	International American Life Insurance Company
Art.1.32 #01-0122	02/09/01	Jefferson Life Insurance Company
Art.1.32 #98-0520	05/07/98	National Financial Insurance Company
Art.1.32 #92-0903	09/16/92	Provident American Insurance Company
Letter	06/16/03	Regal Life of America Insurance Company
Letter	06/16/03	Southwest Service Life Insurance Company
Letter	05/17/02	Texas Builders Insurance Company
Letter	09/22/03	Texas Fidelity Title, L.L.C.
Art.1.32 #03-0543	06/27/03	Texas Propane Gas Association Employees' Beneficiary Trust
Art.1.32 #02-0498	05/14/02	Thomas G. Corless
Letter	06/16/03	United Assurance Life Insurance Company
Art.1.32 #02-1066	10/11/02	Universal Insurance Exchange

Companies Placed in Supervision

between September 1, 2004 and August 31, 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
05-0067	01/14/05	*Confidential
05/0217	03/02/05	Metro West Health Plan, Inc.
05-0221	03/07/05	AMIL International (Texas), Inc.
05-0222	03/07/05	*Confidential
05-0588	06/29/05	*Confidential
05-0602	06/30/05	*Confidential
05-0614	07/11/05	*Confidential
05-0714	08/18/05	*Confidential
05-0715	08/18/05	*Confidential

**Confidential pursuant to Texas Statute.*

Companies Placed in Conservatorship

between September 1, 2004 and August 31, 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-1044	10/29/04	Financial Insurance Company of America
05-0513	06/07/05	AMIL International (Texas), Inc.
05-0514	06/07/05	*Confidential

**Confidential pursuant to Texas Statute.*

Insurers placed in Court Directed/Special Administrative Action

between September 1, 2005 and August 31, 2005

ACTION	DATED	COMPANY NAME
Art. 1.32 #04-1172	12/08/04	National Health Insurance Company
Letter	01/19/05	Mack H. Hannah Life Insurance Company
Letter	08/01/05	Cypress Texas Lloyds

Companies Released from Supervision

between September 1, 2004 and August 31, 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-1043	10/29/04	Financial Insurance Company of America
05-0106	01/26/05	Mack Hannah Life Insurance Company
05-0512	06/03/05	*Confidential
05-0513	06/03/05	AMIL International (Texas), Inc.
05-0739	08/26/05	Metro West Health Plan, Inc.

**Confidential pursuant to Texas Statute*

Companies Released from Conservatorship

between September 1, 2004 and August 31, 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-1172	12/10/04	National Health Insurance Company
05-0525	06/15/05	Financial Insurance Company of America

Insurers Released from Special Administrative Action

between September 1, 2004 and August 31, 2005

COMMISSIONER'S ORDER NUMBER	DATED	COMPANY NAME
04-1074	11/08/04	Central United Life Insurance Company
05-0462	05/16/05	Reliant American Insurance Company
Letter	08/24/05	Dallas Fire Insurance Company
05-0738	08/26/05	Thomas Corless
Letter	08/31/05	Regal Life of America Insurance Company
Letter	08/31/05	Southwest Service Life Insurance Company
Letter	08/31/05	Capitol Security Life Insurance Company
Letter	08/31/05	International American Life Insurance Company
Letter	08/31/05	United Assurance Life Insurance Company

Insurance Companies and Affiliates in Receivership

as of August 31, 2005

NO.	RECEIVERSHIP NAME	CAUSE NO	DISTRICT COURT
375	First Service Life Insurance Company	454,774	53rd
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
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
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
518	Commercial Indemnity Insurance Company	GV304173	98th
519	Highlands Insurance Company	GV3-04537	53rd
521	States General Life Insurance Company	GV500484	126th
522	Financial Insurance Company of America	GV500846	261st
523	Reliant American Insurance Company	GV500016	126th

Receiverships by Fiscal Year

New Receiverships/Receiverships Closed

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

*These numbers reflect two HMO insurers, MetroWest Health Plan, Inc. and AMIL International Insurance Company, Inc., briefly in receivership, but removed due to capital infusion.

Consolidated Receiverships

Balance Sheet

	8/31/05	8/31/04
Cash Assets		
Operating Account	2,666,411	4,851,277
TX Treasury Account	111,476,399	94,161,519
Court Approved Deposits	0	25,000
Early Access/TX GA	107,751,627	113,039,281
Early Access/Other GAs	98,865,383	111,644,412
<i>Total Cash Assets</i>	<i>320,759,820</i>	<i>323,721,489</i>
Assets/for Recovery		
Funds Restricted	9,836,420	10,211,696
Receivable	0	0
Premiums	6,588,098	11,965,861
Agent Balances	471,681	466,172
Reinsurance	51,225,682	39,404,194
Subrogation	19,740	1,171,559
Other	81,809,606	82,733,273
Allowance for Recovery	(105,411,011)	(113,020,187)
Investments	0	0
Stocks/Bonds	10,365,645	11,402,105
Real Estate	0	0
Mortgages/Notes	59,361	59,361
Other	15,742,709	17,015,749
Allowance for Recovery	(14,046,043)	(16,311,650)
Company Assets		
Furniture & Equipment	252,887	247,110
Computers/Software	4,443	3,289
Home Office Building	0	3,000,000
Allowance for Recovery	(204,407)	(200,040)
<i>Total Assets/for Recovery</i>	<i>56,714,810</i>	<i>48,148,493</i>
<i>Total Assets</i>	<i>377,474,630</i>	<i>371,869,982</i>

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Consolidated Receiverships

Balance Sheet (continued)

	8/31/05	8/31/04
Company Liabilities		
Class I Reserves - GA	2,905,776	1,419,106
Class II Claims Reserves - GA	114,563,773	173,723,657
Class II Claims Reserves - NON-GA	157,251,074	172,773,935
Other Liabilities	73,170,817	47,761,115
Class I Creditors		
SDR Fees	310,020	410,862
SDR Sub-Contractors	793,448	427,939
Receivers Allocation	34,036	1,333
GA- Claims Expense	29,874,074	57,043,225
Other Class I	32,276,054	4,083,306
Total Class I Creditors	63,287,632	61,966,664
Class II Creditors		
PH Claims	69,173,314	54,857,023
GA - PH Claims Paid	185,685,304	407,253,022
Other Class II	21,679	1,073,980
Total Class II Creditors	254,880,297	463,184,025
Class III Creditors		
IRS Payable	42,600	432,255
Other Class III Payable	15,220,724	77,710,161
Total Class III Creditors	15,263,324	78,142,416
Class IV Creditors		
General Creditors	1,930,138	3,839,680
Reinsurance Payable	29,704,110	26,619,667
Other Class IV	185,032	185,032
Total Class IV Creditors	31,819,279	30,644,379
Class V Creditors		
Surplus Debentures	2,404,516	0
Ownership Interests	0	0
Other Class V	0	0
Total Class V Creditors	2,404,516	0
<i>Total Company Liabilities</i>	<i>715,546,489</i>	<i>1,029,615,296</i>
Equity		
Accumulated (Loss) Equity	(338,071,858)	(657,745,314)
Unrealized Recovery	0	0
Total Liabilities and Equity	377,474,632	371,869,982

Consolidated Receiverships

Balance Sheet

	8/31/05	8/31/04
Funds Held		
Funds Held for Others	366,792	21,394
Funds Held for Others Expense	0	(510)
Premium		
Collections	2,404,649	1,353,206
Collection Expense	(79,373)	(266,454)
Litigation Expense	0	0
Receivable		
Agents Balance Receipts	400	176,293
Agent Balance Expense	(6,705)	(4,392)
Reinsurance Recovery	20,865,524	9,702,085
Reinsurance Expense	(781,840)	(847,646)
Subrogation Recovery	1,538,120	734,492
Subrogation Expense	(155,318)	(223,363)
Intercompany Receivable Receipts	156,728	0
Intercompany Receivable Expenses	(18,822)	(3,576)
Other Receivable Receipts	3,392,474	2,064,580
Other Receivable Expenses	(907,664)	(834,546)

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Consolidated Receiverships

Balance Sheet (continued)

	8/31/05	8/31/04
Litigation Receivable		
D&O Litigation Recovery	0	0
D&O Litigation Expense	(167,636)	(77,777)
Judgment/Settlement Collections	0	0
Judgment Expense	(14)	0
Investment Account Receipts	0	0
Investment Account Expense	0	0
Other Litigation Receipts	1,205,422	11,058
Other Litigation Expense	(1,543,707)	(587,108)
Sale/Conversion of Investment Assets		
Securities/Bonds Sales Receipts	6,647,747	5,260,343
Securities/Bonds Sales Expense	(9,765)	(22,957)
Statutory Deposit Receipts	2,621,915	2,999,387
Statutory Deposit Expense	(22,151)	(7,044)
Real Estate Sales Receipts	2,094,621	687,992
Real Estate Sales Expense	(154,218)	(155,659)
Mortgage Note Expense	0	23,907
Subsidiary Affiliated Receipts	147,000	2,364,429
Subsidiary Affiliated Expense	(7,765)	(10,672)
Other Asset Receipts	4,072,147	16,470
Other Asset Sales Expenses	(78,849)	(36,211)
Sale of Company Fixed Assets		
Charter Sales Receipts	20,000	15,000
Charter Sales Expense	(5,270)	(10,329)
Furniture, Fixtures & Equipment Receipts	131,473	83,585
Furniture, Fixtures & Equipment Expense	(20,092)	(14,164)
Company Real Estate Receipts	81,324	361,041
Company Real Estate Expense	(145,189)	(290,451)
Other Fixed Asset Receipts	11,998	13,515
Other Fixed Asset Expense	(328)	(3,587)
Net Income from Assets/Receivable	41,286,836	22,492,331
Passive Income		
Investments Interest/Dividends	630,140	294,809
Cash Deposit Interest Income	2,802,851	1,130,192
Early Access Imputed Interest Income	882,193	2,488,305
Net Income/Including Passive	45,602,020	26,405,637
Claims Expense		
Class I Claims Admin. Expenses:		
Covered Claims Expense		
G/A Expense	(4,560,319)	(3,005,686)
SDR Fees	(205,089)	(217,385)
SDR Subcontractor Fees	(94,495)	(107,650)
Other Covered Claims	0	0
Non Covered Claims Expenses		
SDR Fees	(1,584,993)	(2,047,947)
SDR Subcontractor Fees	(534,495)	(825,992)
Other Non Covered Claims	(84,904)	(217,149)
Claims Paid/Distribution		
Covered Claims Funded - G/A	12,784,461	8,117,015
Covered Claims Paid - G/A	(12,527,446)	(8,688,021)
Early Access -G/A	(860,467)	(15,719,174)
Non-Covered Claims Paid/ Receivership Distribution	(38,393,088)	(7,659,409)
<i>Total Claims Expenses</i>	<i>(46,060,835)</i>	<i>(30,371,398)</i>
Class I General Administration Expenses		
Conservation/ Misc. Takeover Exp.	(127,402)	0
Bank/Miscellaneous Charges	(42,816)	(43,629)
Building/Utilities	(92,234)	(205,750)
Contract/Employee	(77,515)	(56,763)
Equipment/Lease/Maintenance	(214,435)	(228,214)
Employee - Payroll, PRTax, Benefits	(233,748)	(2,581)

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Consolidated Receiverships

Balance Sheet (continued)

	8/31/05	8/31/04
Class I General Administration Expenses		
Equipment Lease/Inventory/ Storage/Moving	(337,044)	(372,230)
Mailing/Printing/Postage/Publication	(37,681)	(64,837)
Office Supplies/Miscellaneous	(26,545)	(27,464)
Telephone	(22,405)	(24,936)
Receivership Allocation	(315,309)	(354,265)
<i>Total Class I General Administration Expenses</i>	<i>(1,527,133)</i>	<i>(1,380,668)</i>
Class I Subcontractor Admin. Expenses		
Accounting/Auditing/ Federal Income Tax Services	(148,524)	(129,402)
Consulting Fees/Services	(131,815)	(199,178)
Legal Fees/Services	(315,467)	(227,940)
<i>Total Class I Subcontractor Admin. Expenses</i>	<i>(595,807)</i>	<i>(556,520)</i>
Class I SDR Admin. Expenses		
SDR Administration	(1,105,830)	(1,117,903)
SDR Accounting	(344,246)	(428,527)
SDR Special Services	(161,718)	(172,863)
SDR Legal Services	(82,691)	(38,180)
<i>Total Class I SDR Admin. Expenses</i>	<i>(1,694,486)</i>	<i>(1,757,472)</i>
<i>Total Receivership Administrative Expense</i>	<i>(3,817,425)</i>	<i>(3,694,661)</i>
Net Increase(Decrease) to Receivership Cash	(4,276,240)	(7,660,422)
Class I Payables as of 8/31/05	63,287,632	61,937,160
FY 2005 Reconciliation Adjustments	19,490,075	(2,461,750)
Cash Available as of 8/31/05	114,142,810	99,037,797

Texas Property and Casualty Insurance Guaranty Association

Audited Financial Statements, December 31, 2004

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 2004. 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 2005 that runs from September 1, 2004 through August 31, 2005.

Statement of Financial Position, December 31, 2004

ASSETS	2004
Current Assets	
Cash and Cash Equivalents (Notes 1 and 2)	\$ 19,270,140
Investments, at Fair Value (Note 3)	401,632,271
Assessments Receivable	
Accounts Receivable - Other	1,189
Total Current Assets	420,903,600
Noncurrent Assets	
Loans Receivable (Note 5):	
Administrative	\$ 24,181,980
Auto	126,665,807
Other Lines	135,516,618
Workers' Compensation	288,237,983
Total Loans Receivable	574,602,388
Allowance for Doubtful Accounts (Notes 1 and 5)	(574,602,388)
<i>Net Loans Receivable</i>	
Property and Equipment (Note 1):	
Furniture and Equipment	933,100
Computer Systems	1,139,951
Telephone Systems	170,791
Company Vehicles	21,641
Leasehold Improvements	276,219
Accumulated Depreciation	(1,807,012)
<i>Net Property and Equipment</i>	<i>734,690</i>
<i>Total Noncurrent Assets</i>	<i>734,690</i>
Total Assets	\$421,638,290

Texas Property and Casualty Insurance Guaranty Association

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, 2004

Revenues

Distributions	\$ 49,917,919
Assessments	(30,393)
Investment Income, Net (Note 10)	9,626,541
Interest on Accounts	191,721
Subrogation and Salvage Recoveries	11,894,134
Miscellaneous Income	535
Total Revenues	71,600,457

2004 Liabilities

Current Liabilities

Accounts Payable and Accrued Liabilities	\$ 1,324,102
Outstanding Checks	4,055,337
Current Portion of Claims Payable (Note 6)	80,000,000
Total Current Liabilities	85,379,439

Long Term Liabilities

Claim Liabilities (Note 6)	
Loss Adjustment Expense	22,712,872
Auto	7,399,290
Other Lines	29,804,701
Workers' Compensation	377,623,648
Total Long Term Claim Liabilities	437,540,511

Other Long Term Liabilities

Early Access Distributions (Note 6)	28,221,375
Total Other Long Term Liabilities	28,221,375

Total Long Term Liabilities	465,761,886
Total Liabilities	\$ 551,141,325
Net Assets, Invested in Capital Assets	734,690
Net Assets (Deficit), Unrestricted (Note 7)	(130,237,725)
Total Net Assets	(129,503,035)
Total Liabilities and Net Assets	\$ 421,638,290

Claims Activity

Claims Payments

Claims Administration	19,445,606
Auto	3,792,263
Other Lines	19,622,556
Workers' Compensation	43,406,999
Total Claims Payments	86,267,424
Change in Claims Liabilities	(70,586,550)
Total Claims Activity	15,680,874
Excess (Deficiency) of Revenues over Claims Activity and Refunds	55,919,583

2004 Operating Expenses

Employment Expenses	\$ 4,156,107
Employee Relations	10,549
Education and Staff Development	75,873
Contract labor	62,184
Legal Fees	25,176
Audit Fees	14,500
Consulting	40,800
Leasehold Improvements	33,079
Office Rent and Overhead	589,069
Insurance	89,430
Furniture and Equipment	3,515
Equipment Rental	74,288
Computer Systems	765,151
Telephone	39,077
Office Supplies	77,091
Postage and Delivery	195,956
Printing	19,374

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Texas Property and Casualty Insurance Guaranty Association

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, 2004 (continued)

2004 Operating Expenses

Advertising-Employee Procurement	
Travel	63,949
Professional Meetings	44,289
Reference Materials	14,361
Subscriptions and Professional Dues	91,163
Property Taxes	11,112
Bank Charges	59,055
Depreciation Expense	129,404
Total Operating Expenses	6,684,552
Increase (Decrease) in Net Assets	49,235,031
Gain (Loss) on Sale of Property and Equipment	
Beginning Net Assets (Deficit) at January 1	(178,738,066)

Net Assets (Deficit) at December 31 **\$ (129,503,035)**

Statement of Cash Flows for the Years Ended December 31, 2004

2004 Cash Flows from Operating Activities

Decrease in Net Assets \$ 49,235,031

Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided by Operating Activities

Depreciation Expense 129,404
Unrealized Gains (Losses) on Investments 2,178,021

Change in Assets and Liabilities

(Increase) Decrease in Assessments Receivable 30,274,649
(Increase) Decrease in Other Assets (845)
Increase (Decrease) in Claims liabilities (70,586,550)
Increase (Decrease) in Other liabilities (2,156,050)

Total Adjustments (40,161,371)

Net Cash (Used) Provided by Operating Activities 9,073,660

Cash Flows from Investing Activities

Capital Expenditures (381,189)
Sale of Property and Equipment 7,830
Gain (Loss) on Sale of Property and Equipment
Purchase of Investments (689,649,468)
Proceeds from Sales and
Maturities of Investments 651,441,028
Net Cash (Used) Provided by Investing Activities (38,581,799)
Net Increase (Decrease) in Cash and
Cash Equivalents (29,508,139)
Cash and Cash Equivalents at January 1 48,778,279

**Cash and Cash Equivalents at
December 31 (Note 2)** **\$19,270,140**

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

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2004

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, 2004 represented 11.1% of the portfolio's fair value.

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

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

2 Cash and Cash Equivalents

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

	2004
Cash in Bank	\$ 128,559
Cash on Hand	300
Mutual Funds	19,141,281
	\$19,270,140

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.

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2004

At December 31, 2004 the Association maintained demand accounts with bank balances in excess of federally insured limits of \$43,992. The carrying value of these demand accounts, resulting from uncollected items and outstanding checks, was \$128,559 in 2004.

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.

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2004

Investments at December 31, were as follows:

2004	FAIR VALUE	% OF FAIR VALUE
U.S. Treasury Issues	\$119,947,662	29.9%
Federal Agency Issues	210,963,139	52.5%
Municipal/Provincial Bonds	4,998,916	1.2%
Mortgage-backed Pass-through Securities (Derivatives)	44,457,923	11.1%
Cash Equivalents	17,958,311	4.5%
Accrued Interest	3,306,320	0.8%
Total at December 31, 2004	\$401,632,271	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, 2004 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 (2003):

LINE-OF-BUSINESS	PREMIUM BASE	ASSESSMENTCAPABILITY
Automobile	\$13,221,671,053	\$ 264,433,421
Other Lines	11,125,677,207	222,513,544
Workers' Compensation	4,726,259,79	94,525,194
	\$29,073,607,939	\$ 581,472,159

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

5 Loans Receivable

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

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2004

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, 2004, are as follows:

LINE-OF-BUSINESS	CLAIMS PAYABLE	ANNUAL ASSESSMENT CAPABILITY
Automobile	\$ 7,399,290	\$ 264,433,421
Other Lines	29,804,701	222,513,544
Workers' Compensation	377,623,648	94,525,194
Loss Adjustment Expenses	22,712,872	No Limit
Total	437,540,511	
Current	80,000,000	
Long Term	\$517,540,511	

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

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

8 Commitments and Contingencies

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

MINIMUM LEASE PAYMENT	
2005	\$394,420
2006	394,420
2007	394,420
2008	394,420
2009	394,420
2010	394,420
2011	394,420
2012	394,420
2013	394,420
2014	361,552
	\$3,911,332

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.

Texas Property and Casualty Insurance Guaranty Association

Notes to Financial Statements December 31, 2004

10 Investment Income

Gross earnings for 2004 were \$15,751,597 (including \$3,076,546 in realized gains and security lending income of \$263,065), net of realized losses of \$3,543,156, unrealized losses of \$2,178,021, custodian fees of \$22,287, and investment manager's fees of \$381,592, resulting in net investment income of \$9,626,541.

11 Deferred Compensation Plan

The Association has established a defined contribution retirement plan (the plan) (a "profit sharing" plan under IRS Section 401(a) Plan). The plan is open to all employees. The employer made a discretionary contribution of 3% of all employees' compensation for the plan year. The employer will make a "matching contribution" to the plan on behalf of the employees in the amount of 100% of the employees' elective deferral, up to 3% of total compensation for the plan year. The employee may make discretionary before tax contribution to the plan not to exceed Internal Revenue Service limitations. The Association's contribution for the year ended December 31, 2004 was \$187. The employees contributed \$213,204 and \$177,906, for 2004 and 2003 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 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 2004, the Association contracted with insurance carriers for property and general liability insurance.

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

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Audited Financial Statements, December 31, 2004

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 2004. 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 2005 that runs from September 1, 2004 through August 31, 2005.

Statements of Financial Position, December 31, 2004

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Statements of Net Assets December 31, 2004

Assets	2004
Current assets	
Cash and cash equivalents	\$ 115,348,295
Investments	21,000
Receivables	
Billed assessments, net of allowance of \$681,182 and \$723,363, respectively	70,407
Other receivables	154,431
Proofs of claim, net of allowance of \$262,719,282 and \$327,982,567, respectively	3,173,307
<i>Total current assets</i>	<i>118,767,440</i>
Noncurrent assets	
Unbilled assessments	84,072,478
Capital assets, net	45,925
Total noncurrent assets	84,118,403
Total assets	\$ 202,885,843
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$363,596
Accrued expenses	47,207
Estate funds payable	5,253,849
Current portion of insurance contractual obligations	56,397,944
<i>Total current liabilities</i>	<i>62,062,596</i>
Noncurrent liabilities	
Insurance contractual obligations	113,402,337
Total liabilities	175,464,933
Net assets	
Invested in capital assets	45,925
Unrestricted	27,374,985
<i>Total net assets</i>	<i>27,420,910</i>
Total liabilities and net assets	\$ 202,885,843

See accompanying notes to financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended December 31, 2004

Operating revenues	
Membership assessments	
Billed assessments	\$ 0
Change in unbilled assessments	19,860,498
Estate recoveries and early access distributions	55,304,699
Change in proofs of claim, net of allowance	62,433
Premiums	355,814
Other	3,349
<i>Total operating revenues</i>	<i>75,586,793</i>
Operating Expenses	
Claims	
Change in insurance contractual obligations	49,545,615
Refund of prior years' assessments	(42,580)
Claims paid	13,665,208
Assumption reinsurance agreements	5,970,073
Third-party administrators	91,565
National task forces	796,961
	70,026,842

continued on page 83

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended December 31, 2004 (continued)

Operating Expenses (continued)

Administrative costs

Legal and professional	137,903
Salaries and benefit costs	589,264
Building and equipment lease costs	89,269
Depreciation	14,342
National organization dues and meetings	57,835
Other	132,455
	1,021,068

Total operating expenses 71,047,910

Operating income (loss) 4,538,883

Non-operating revenues

Interest income	1,055,896
Total non-operating revenues	1,055,896
Increase (decrease) in net assets	5,594,779
Net assets, beginning of year	21,826,131
Net assets, end of year	\$27,420,910

See accompanying notes to financial statements.

Statements of Cash Flow For the Years Ended December 31, 2004

Cash flows from operating activities 2004

Receipts from assessments	\$	0
Receipts from estate recoveries		55,304,699
Receipts from premiums		355,814
Receipts from other sources		3,349
Payments for assumption reinsurance agreements		(5,970,073)
Payments for direct claims		(13,665,208)
Payments to suppliers for goods and services		(1,512,080)
Payments to employees		(589,264)
Assessment refunds applied		(7,617,964)
Net cash provided by (used in) operating activities		26,309,273

Cash flows from capital and related financing activities

Purchases of capital assets		0
Net cash used in capital and related financing activities		0
Net cash provided by (used in) operating activities		26,309,273

Cash flows from investing activities

Redemption of long-term bond investment		0
Receipt of interest on investments		1,055,895
Net cash provided by investing activities		1,055,895
Net increase (decrease) in cash and cash equivalents		27,365,168
Cash and cash equivalents - beginning of year		87,983,127
Cash and cash equivalents - end of year		115,348,295

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities

Operating income (loss)		\$4,538,883
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Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:

Depreciation expense		14,342
Unbilled assessments		(19,860,498)

Change in assets and liabilities

Billed assessments receivable, net of allowance		0
Other receivables		(147,435)
Proofs of claim, net of allowance		(62,433)
Accounts payable		(210,820)
Accrued expenses		4,727
Estate funds payable		(7,513,108)
Insurance contractual obligations		49,545,615
Net cash provided by (used in) operating activities		\$26,309,273

See accompanying notes to financial statements.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

1 Nature of Operations and Reporting Entity

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

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

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.

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

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

2 Summary of Significant Accounting Policies

a Basis of Accounting

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

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

b Tax Exempt Status

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

c Cash Equivalents

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

d Investments

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

e Allowances for Uncollectible Proofs of Claim Receivable,

Allowances for uncollectible proofs of claim are estate specific. The allowance for each estate is based on evaluations of estate financial statements and records, reports from estate receivers, and information from other third parties. Uncollected proofs of claim are written off by the Board of Directors only after an estate is closed in both the domestic and ancillary state and there is no reasonable expectation that any additional funds will be recovered from the estate or other third party.

f Furniture and Equipment

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

g Net Assets

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

h Premium Revenue

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

i Use of Estimates

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

3 Cash and Cash Equivalents

Cash and cash equivalents consist of bank demand deposits and money market investment accounts. The Association's carrying amount of bank demand deposits at December 31, 2004 was \$649,974 and the total bank balances equaled \$4,854. The deposits are insured up to a maximum of \$100,000 by the Federal Deposit Insurance Corporation. Excess funds are swept into overnight investments which are backed by the full faith and credit of the United States.

Money market investments at December 31, 2004 were \$114,698,321. 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

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

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.

4 Membership Assessments

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

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

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

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

Class B assessment revenue for 2004 was \$-0- The Association collected approximately 99% of the total Class B Assessment through the end of 2003.

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. There was no Class B assessment levied or credit refund applied to member insurers in 2004.

Billed assessments receivable as of December 31, 2004 (before an allowance) was \$751,589. These unpaid assessments were levied in years 1991 through 2003. An allowance for uncollectible billed assessments in the amount of \$681,182 has been recorded as of December 31, 2004.

Unbilled assessments receivable of \$84,072,478 at December 31, 2004 represent the statutory ability of the Association to assess member insurers as required to meet corresponding insurance contractual obligations. This amount may be billed in future periods as necessary to fund estate liabilities.

5 Proofs of Claim

The Association files proofs of claim against individual receivership estates to recover claims, claims handling costs, and administrative expenses incurred by the Association related to the estate. These proofs of claim may be amended and are updated and filed periodically as additional costs are incurred and paid by the Association. At December 31, 2004 proofs of claim receivable on open estates (before an allowance) were \$265,892,589.

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, 2004 was \$262,719,282.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

6 Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

2004	BEGINNING OF YEAR	ADDITIONS	RETIREMENTS	END OF YEAR
Capital assets, being depreciated:				
Furniture and equipment	\$71,712	0		\$71,712
Less: accumulated depreciation	\$11,445	\$14,342	0	\$25,787
	\$60,267	\$14,342	0	\$45,925

Depreciation expense for 2004 was \$14,342.

7 Interaccount Loans and Borrowings

The Board of Directors of the Association has adopted a resolution that allows for short term loans from the account of one estate to another estate. Interest is paid by the borrowing estate to the estate making the short-term loan at a rate which approximates that earned on short-term government securities. For the years ended December 31, 2004, the following transactions occurred, which are not reflected in the financial statements since they relate to activity within the Association:

2004	BEGINNING OF YEAR	ADDITIONS	REPAYMENTS	END OF YEAR
Interaccount loans	\$ 108,457	167,670	(135,795)	140,332
Interaccount borrowings	\$ (108,457)	(135,795)	167,670	(14,332)

Interest of \$1,353 was charged on these loans for the year ended December 31, 2004.

8 Insurance Contractual Obligations

The liability for insurance contractual obligations is an estimated amount of future cash payments for all impaired or court-ordered insolvent estates. The amounts are necessarily based on estimates, and the ultimate liability may vary significantly from the estimate. In addition, the liability is based on information supplied principally by third parties such as receivers, third-party administrators and member participation task forces. As of December 31, 2004, activity in the insurance contractual obligations was as follows:

Year ended	BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	END OF YEAR	CURRENT PORTION
December 31, 2004	\$120,254,666	75,615,067	26,069,452	169,800,281	56,397,944

One open estate, Executive Life, comprised approximately 66% of the insurance contractual obligations at December 31, 2004. 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 \$56,000,000 as of December 31, 2004, respectively. The settlement calculation does not include certain guaranteed issue contracts with future cash flows of approximately \$7,205,000 as of December 31, 2004.

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

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

9 Net Assets

As of December 31, 2004, net assets reflected in the financial statements of the Association consisted of the following:

Unrestricted net assets	2004
Association's continuing administrative expenses	\$ 13,817,453
Insolvent estates	13,557,532
	27,374,985
Invested in capital assets	45,925
Total net assets	\$ 27,420,910

10 Operating Leases

The Association leases its office facility under a non-cancelable operating lease that expires in September 2010. The Association also has several noncancelable operating leases for equipment and machinery that expire during the next four years. Lease expense charged to operations for the years ended December 31, 2004 amounted to \$89,269.

Future annual minimum lease payments under noncancelable operating leases for each of the years subsequent to December 31, 2004 are as follows: 2005, \$87,566; 2006, \$86,996; 2007, \$86,996; 2008, \$80,993; 2009, \$92,224; and thereafter \$69,168.

11 Employee Benefit Plan

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

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

Contributions to the Plan for 2004 by the Association totaled \$16,350 and employee contributions totaled \$51,386.

12 Risk Management

The Association carries commercial insurance as protection from exposure to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There were no significant reductions in insurance and no insurance claims were filed during 2004.

13 Commitments and Contingencies

A liquidator or special deputy receiver for the estate of an insolvent insurer may, as assets become available, make disbursements out of marshaled assets to a guaranty association(s) having claims against the estate of the insolvent insurer prior to a distribution to other creditors or the closing of the estate. The liquidator or special deputy receiver prior to such disbursement shall also secure from each guaranty association entitled to disbursements an agreement to return to the liquidator upon request and with court approval such assets, together with income on assets previously disbursed as may be required. As of December 31, 2004, the Association has received approximately \$156 million subject to such agreements since its inception.

Life, Accident, Health and Hospital Service Insurance Guaranty Association

Notes to Financial Statements December 1, 2004

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

Texas Title Insurance Guaranty Association

Statements of Net Assets December 31, 2004

Assets	2004
Cash and cash equivalents	\$566,092
Investments	1,346,313
Accrued income receivable	333,140
Other assets	19,112
Total assets	\$2,264,657
Liabilities and Net Assets	
Liabilities	
Accrued expenses	\$90,922
Total liabilities	90,922
Net assets	
Unrestricted	909,651
Restricted	1,264,084
Total net assets	2,173,735
Total liabilities and net assets	\$2,264,657

See accompanying notes to the financial statements.

Statements of Revenues, Expenses and Changes in Net Assets Years Ended December 31, 2004

Operating revenues	2004
Investment income	\$11,517
Guaranty Fees	1,377,616
Restitution	4,871
Unrealized gain on investments	\$4,027
<i>Total operating revenues</i>	<i>1,398,031</i>
Operating expenses	
Examiners	908,828
Professional services	75,143
Board meeting expenses	1,399
Insurance	1,063
Property taxes	908
Bank charges	1,375
Supplies	437
<i>Total operating expenses</i>	<i>989,153</i>
Revenue over (under) expenses	408,878
Net assets at beginning of year	1,764,857
Net assets at end of year	\$ 2,173,735

See accompanying notes to the financial statements.

Texas Title Insurance Guaranty Association

Statements of Cash Flows Years Ended December 31, 2004

Cash from operating activities	2004
Receipts of investment income	\$11,517
Receipts from restitution 4,871	
Receipts from guaranty fees	1,044,476
Payments to examiners (898,020)	
Payments to professionals (71,849)	
Payments to board members	(1,144)
Payments to vendors (2,875)	
Net cash provided by (used in) operating activities	86,976
Cash flows from noncapital financing activities	
Cash flows from capital and related financing activities	
Cash flows from investing activities	
Purchase of investments	(2,487,332)
Sale of investments	1,145,046
Net cash (used in) provided by investing activities	(1,342,286)
Net decrease in cash and cash equivalents	(1,255,310)
Cash and cash equivalents at beginning of year	1,821,402
Cash and cash equivalents at end of year	\$ 566,092
Reconciliation of operating surplus (deficit) to net cash provided by (used in) operating activities	
Revenues over (under) expenses	408,878
Adjustments to reconcile revenues over (under) expenses To net cash provided by (used in) operating activities	
Net increase in the fair market of investments	(4,027)
Changes in assets and liabilities	
Increase in assessment receivable	(333,140)
Decrease in accrued income receivable	
Increase in accrued expenses	15,265
Net cash provided by (used in) operating activities	\$ 86,976

See accompanying notes to the financial statements.

Notes to the Financial Statements December 31, 2004

1 Summary of Significant Accounting Policies

a Reporting Entity

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

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

b Basis of Accounting

The Association meets the definition of a governmental not-for-profit entity as set forth in the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*. The financial statements of the Association are prepared on the basis of an enterprise fund as defined by the Governmental Accounting Standards Board (GASB). Enterprise funds are used to account for operations **1**) 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 **2**) where the governing body has decided that periodic

Texas Title Insurance Guaranty Association

Notes to the Financial Statements December 31, 2004

determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Effective January 1, 2003, the Association adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*. The primary effect of the adoption of GASB No. 40 on the District's financial statements is a change in the disclosure of deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The adoption of GASB Statement No. 40 had no impact on total net assets.

c Cash and Cash Equivalents

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

d Investments

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

e Guaranty Fees

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

f Recoupment Fees

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

g Taxes

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

h Restricted Assets

The Association's assets are restricted by virtue of the Act. The Association has approximately \$909,651 of unrestricted net assets at December 31, 2004.

i Classification of operating and nonoperating revenue and expenses

The Association defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with GASB Statement No. 9 which defines operating receipts as cash receipts from

Texas Title Insurance Guaranty Association

Notes to the Financial Statements December 31, 2004

customers and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing or investing activities. Operating revenues include interest on investments, fee assessments and other revenues related to guaranty operations. Operating expenses include contractual services and other expenses (such as examinations, insurance and professional fees). Revenues and expenses not fitting the above definitions are considered nonoperating.

j Use of estimates

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

2 Cash, Cash Equivalents and Investments

The Association's bank balances totaled approximately \$27,239 as of December 31, 2004. 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 and cash equivalents consisted of the following as of December 31, 2004.

	2004
Cash on deposit	\$ 25,440
Money market mutual funds	540,652
Treasury funds	\$ 566,092

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 insured by the Securities Investor Protection Corporation or held by the Association or its agent and listing the Association as owner. The Association's investments as of December 31, 2004 are as follows:

	2004
U.S. Treasury Bills	\$1,346,313
	\$1,346,313

3 Commitments and Contingencies

The Association, by its nature, is subject to various ongoing claims by insurance companies, policy holders, receiverships and creditors of the receiverships. Some of these claims may result in litigation against the Association. At December 31, 2004, no such liabilities existed.

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

4 Significant Group Concentrations of Risk

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