

# Part V

## Annual Financial Report



This section of the *126<sup>th</sup> Annual Report* gives an overview of all agency funds, as well as tax receipts and expenditures. This report is required under Section 12, Article 1.10 and Section b, Article 1.25 of the *Texas Insurance Code*.

issued by the **Texas Department of Insurance**



**Texas Department of Insurance**

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**José Montemayor**  
Commissioner of Insurance

November 19, 2001

Honorable Rick Perry, *Governor*  
Honorable Carole Keeton Rylander, *State Comptroller*  
John Keel, *Director, Legislative Budget Board*  
Lawrence F. Alwin CPA, *State Auditor*

Dear Public Officials:

We are pleased to submit the *Annual Financial Report* of the Texas Department of Insurance for the year ended August 31, 2001, in compliance with *Tex. Gov't Code, Ann. §2101.011*, and in accordance with the requirements established by the Comptroller of Public Accounts.

The accompanying *Annual Financial Report* will be considered for audit by the State Auditor as part of the audit of the *State of Texas Comprehensive Annual Financial Report*; therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Joe Meyer at 512-463-6143.

Sincerely,

Jose Montemayor, CPA  
Commissioner of Insurance

TEXAS DEPARTMENT OF INSURANCE (454)

**EXHIBIT I  
COMBINED BALANCE SHEET - All Fund Types/Account Groups and  
Discretely Presented Component Units**

August 31, 2001

	GOVERNMENTAL FUNDS		FIDUCIARY	ACCOUNT
	GENERAL REVENUE (0036) U/F(0036)	SPECIAL REVENUE (9999) U/F(1999)	TRUST AND AGENCY (EXH B-1)	GROUPS GENERAL FIXED ASSETS
	\$	\$	\$	\$
<b>ASSETS</b>				
Cash and Temporary Investments:				
Cash on Hand	685.00			
Cash in Bank (Note 3)	45,000.00	678,269.15	110,351.71	
Cash in State Treasury *	44,096,021.47		1,598,793.54	
Short-Term Investments (Note 3)		7,474,935.58	429,701,594.75	
Investments (Note 3)				
Receivables:				
Federal Receivables	93,076.41			
Interest and Dividends Receivable				
Accounts Receivable	510,023.99	39,932.36		
Due From Other Funds (Note 7)	4,636.00			
Consumable Inventories	46,484.70			
Fixed Assets: (Note 2)				
Vehicles				792,251.92
Furniture and Equipment				7,174,175.49
Other Fixed Assets				103,220.00
Less: Accumulated Depreciation				
Other Assets			907,526,114.94	
Amounts to be Provided in Future Years (Note 4)				
<b>TOTAL ASSETS</b>	<u>\$ 44,795,927.57</u>	<u>\$ 8,193,137.09</u>	<u>\$ 1,338,936,854.94</u>	<u>\$ 8,069,647.41</u>
<b>LIABILITIES</b>	\$	\$	\$	\$
Payables				
Accounts Payable	1,706,598.57	1,013,592.50		
Other Payables	4,024,801.01			
Due to Other Funds (Note 7)	1,292,657.31			
Deferred Revenues				
Employees' Compensable Leave (Note 4)				
Funds Held For Others			1,061,130,749.97	
<b>TOTAL LIABILITIES</b>	<u>\$ 7,024,056.89</u>	<u>\$ 1,013,592.50</u>	<u>\$ 1,061,130,749.97</u>	<u>\$</u>
<b>FUND EQUITY</b>	\$	\$	\$	\$
Investment in General Fixed Assets				8,069,647.41
Retained Earnings Unreserved				
Fund Balances				
Reserved for -				
Encumbrances	844,447.35			
Inventories	46,484.70			
Imprest Accounts	45,685.00			
Unreserved / Undesignated Other	36,835,253.63	7,179,544.59	277,806,104.97	
<b>TOTAL FUND EQUITY</b>	<u>37,771,870.68</u>	<u>7,179,544.59</u>	<u>277,806,104.97</u>	<u>8,069,647.41</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 44,795,927.57</u>	<u>\$ 8,193,137.09</u>	<u>\$ 1,338,936,854.94</u>	<u>\$ 8,069,647.41</u>
	* Cash in Treasury			
General Revenue	\$			
Consolidated/Dedicated Account 0036	44,096,021.47			
Total	<u>\$ 44,096,021.47</u>			

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

UNAUDITED

ACCOUNT GROUPS GENERAL LONG-TERM DEBT	TOTALS Primary Government FY 2001	Component Units Proprietary (EXH A-1)	TOTALS Memorandum Only Reporting Entity FY 2001
\$	\$	\$	\$
	685.00		685.00
	833,620.86	(2,436,097.00)	(1,602,476.14)
	45,694,815.01		45,694,815.01
	437,176,530.33	5,532,540.00	442,709,070.33
		47,517,344.00	47,517,344.00
	93,076.41		93,076.41
		48,387.00	48,387.00
	549,956.35	4,572,177.00	5,122,133.35
	4,636.00		4,636.00
	46,484.70		46,484.70
	792,251.92		792,251.92
	7,174,175.49	1,732,010.00	8,906,185.49
	103,220.00		103,220.00
		(793,788.00)	(793,788.00)
	907,526,114.94	3,950.00	907,530,064.94
4,071,761.39	4,071,761.39		4,071,761.39
<u>\$ 4,071,761.39</u>	<u>\$ 1,404,067,328.40</u>	<u>\$ 56,176,523.00</u>	<u>\$ 1,460,243,851.40</u>
\$	\$	\$	\$
	2,720,191.07	679,124.00	3,399,315.07
	4,024,801.01	16,088,258.00	20,113,059.01
	1,292,657.31		1,292,657.31
		36,959,357.00	36,959,357.00
4,071,761.39	4,071,761.39		4,071,761.39
	1,061,130,749.97		1,061,130,749.97
<u>\$ 4,071,761.39</u>	<u>\$ 1,073,240,160.75</u>	<u>\$ 53,726,739.00</u>	<u>\$ 1,126,966,899.75</u>
\$	\$	\$	\$
	8,069,647.41		8,069,647.41
		2,449,784.00	2,449,784.00
	844,447.35		844,447.35
	46,484.70		46,484.70
	45,685.00		45,685.00
	321,820,903.19		321,820,903.19
	330,827,167.65	2,449,784.00	333,276,951.65
<u>\$ 4,071,761.39</u>	<u>\$ 1,404,067,328.40</u>	<u>\$ 56,176,523.00</u>	<u>\$ 1,460,243,851.40</u>

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TEXAS DEPARTMENT OF INSURANCE (454)

## EXHIBIT II COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-All Governmental Fund Types and Expendable Trust Funds

For the fiscal year ended August 31, 2001

	GOVERNMENTAL FUNDS				EXPENDABLE TRUST FUND (9999) U/F(0050)	TOTALS
	GENERAL REVENUE (0036) U/F(0036)		SPECIAL REVENUE (9999) U/F(1999)			Memorandum Only Primary Government FY 2001
<b>REVENUES</b>	\$		\$		\$	\$
Federal Revenue (Sch 1A)		287,747.95				287,747.95
Federal Grant Pass-Through Revenue (Sch 1A)		119,228.00				119,228.00
Licenses, Fees and Permits		26,514,404.73				26,514,404.73
Interest and Investment Income			76,194.84	14,447,625.64		14,523,820.48
Sales of Goods and Services		87,061.95				87,061.95
Other Revenue		1,291,656.50	787,630.28	12,134,580.00		14,213,866.78
<b>TOTAL REVENUES</b>		<u>28,300,099.13</u>	<u>863,825.12</u>	<u>26,582,205.64</u>		<u>55,746,129.89</u>
<b>EXPENDITURES</b>						
Salaries and Wages		39,917,961.60	387,087.25			40,305,048.85
Payroll Related Costs		9,602,957.83				9,602,957.83
Professional Fees and Services		385,129.56	10,545.00	109,939.36		505,613.92
Travel		1,767,221.34	6,114.02			1,773,335.36
Materials and Supplies		1,399,870.26	2,316.88			1,402,187.14
Communication and Utilities		1,143,089.96	35,151.31			1,178,241.27
Repairs and Maintenance		835,305.33	2,181.49			837,486.82
Rentals and Leases		392,431.05	428,551.89			820,982.94
Printing and Reproduction		436,444.71				436,444.71
Claims and Judgements		121,270.48				121,270.48
Public Assistance Payments		2,000,000.00				2,000,000.00
Other Expenditures		1,981,687.64	29,064.13	11,486,694.46		13,497,446.23
Capital Outlay		1,047,478.65				1,047,478.65
<b>TOTAL EXPENDITURES</b>		<u>61,030,848.41</u>	<u>901,011.97</u>	<u>11,596,633.82</u>		<u>73,528,494.20</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>		<u>(32,730,749.28)</u>	<u>(37,186.85)</u>	<u>14,985,571.82</u>		<u>(17,782,364.31)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating Transfers In (Note 7)		48,535,520.34	4,578,166.06			53,113,686.40
Operating Transfers Out (Note 7)		(16,091,034.60)				(16,091,034.60)
Sale of General Fixed Assets		12,680.21				12,680.21
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>		<u>32,457,165.95</u>	<u>4,578,166.06</u>	<u>0.00</u>		<u>37,035,332.01</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>		<u>(273,583.33)</u>	<u>4,540,979.21</u>	<u>14,985,571.82</u>		<u>19,252,967.70</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>		<u>38,107,075.00</u>	<u>2,638,565.38</u>	<u>262,820,533.15</u>		<u>303,566,173.53</u>
Net Change in Reserve for Inventories		(61,620.99)				(61,620.99)
<b>FUND BALANCES - END OF YEAR (EXH I)</b>	\$	<u>\$ 37,771,870.68</u>	<u>\$ 7,179,544.59</u>	<u>\$ 277,806,104.97</u>	\$	<u>\$ 322,757,520.24</u>

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEXAS DEPARTMENT OF INSURANCE (454)

**EXHIBIT IV**  
**COMBINED STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND EQUITY - All Proprietary Fund Types**  
**and Similar Trust Funds**

For the fiscal year ended August 31, 2001

	<b>Component Units</b>			<b>TOTALS</b>
	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	FY 2001
<b>OPERATING REVENUES:</b>				
Sales of Goods and Services	\$ 2,287,230.00	\$	\$	\$ 2,287,230.00
Premium Revenue		1,026,373.00	36,745,205.00	37,771,578.00
Interest and Investment Income			1,876,578.00	1,876,578.00
Other Operating Revenues	62,037.00	3,485,839.00	29,720,542.00	33,268,418.00
<b>Total Operating Revenues</b>	<b>2,349,267.00</b>	<b>4,512,212.00</b>	<b>68,342,325.00</b>	<b>75,203,804.00</b>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	934,280.00		126,317.00	1,060,597.00
Payroll Related Costs	283,984.00		22,835.00	306,819.00
Professional Fees and Services	150,165.00	60,665.00	4,304,059.00	4,514,889.00
Travel	4,355.00		2,486.00	6,841.00
Materials and Supplies	109,504.00		28,194.00	137,698.00
Communication and Utilities	9,184.00			9,184.00
Repairs and Maintenance	22,431.00			22,431.00
Rentals and Leases	276,010.00		15,524.00	291,534.00
Printing and Reproduction	13,372.00		19,052.00	32,424.00
Depreciation and Amortization	126,507.00		4,336.00	130,843.00
Other Operating Expenses	103,200.00	4,433,828.00	63,819,522.00	68,356,550.00
<b>Total Operating Expenses</b>	<b>2,032,992.00</b>	<b>4,494,493.00</b>	<b>68,342,325.00</b>	<b>74,869,810.00</b>
<b>NET INCOME (LOSS)</b>	<b>316,275.00</b>	<b>17,719.00</b>	<b>0.00</b>	<b>333,994.00</b>
<b>FUND EQUITY, BEGINNING OF YEAR</b>	<b>2,148,432.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,148,432.00</b>
Restatement		(32,642.00)		(32,642.00)
<b>FUND EQUITY, as Restated</b>	<b>2,148,432.00</b>	<b>(32,642.00)</b>	<b>0.00</b>	<b>2,115,790.00</b>
<b>FUND EQUITY - END OF YEAR (EXH I)</b>	<b>\$ 2,464,707.00</b>	<b>\$ (14,923.00)</b>	<b>\$ 0.00</b>	<b>\$ 2,449,784.00</b>

(Note A)

Note A - These Component Units have a fiscal year end of December 31, 2000. Financial information presented is representative of that fiscal year date.

The accompanying Notes to the Financial Statements are an integral part of this financial statement.

TEXAS DEPARTMENT OF INSURANCE (454)

## EXHIBIT V COMBINED STATEMENT OF CASH FLOWS - All Proprietary Fund Types

For the fiscal year ended August 31, 2001

	Component Units			TOTALS
	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	FY 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Proceeds received from customers	\$ 2,104,696.00	\$ 1,108,312.00	\$ 38,497,568.00	\$ 41,710,576.00
Proceeds from other revenues	67,250.00	2,799,061.00	68,255,517.00	71,121,828.00
Payments to suppliers for goods and services	(1,841,767.00)	(3,091,851.00)	(65,171,532.00)	(70,105,150.00)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>330,179.00</b>	<b>815,522.00</b>	<b>41,581,553.00</b>	<b>42,727,254.00</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments for other uses		(300,000.00)	(5,723.00)	(305,723.00)
<b>Net Cash Provided By Noncapital Financing Activities</b>	<b>0.00</b>	<b>(300,000.00)</b>	<b>(5,723.00)</b>	<b>(305,723.00)</b>
<b>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>				
Payments for additions to fixed assets	(580,539.00)			(580,539.00)
Proceeds from sale of fixed assets	9,075.00			9,075.00
<b>Net Cash Provided For Capital &amp; Related Financing Activities</b>	<b>(571,464.00)</b>	<b>0.00</b>	<b>0.00</b>	<b>(571,464.00)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	550,000.00		68,300,000.00	68,850,000.00
Payments to acquire investments	(200,000.00)		(106,909,066.00)	(107,109,066.00)
<b>Net Cash Provided From (Used In) Investing Activities</b>	<b>350,000.00</b>	<b>0.00</b>	<b>(38,609,066.00)</b>	<b>(38,259,066.00)</b>
Increase (decrease) in cash	108,715.00	515,522.00	2,966,764.00	3,591,001.00
Cash and cash equivalents - Beginning	187,719.00	197,448.00	(879,725.00)	(494,558.00)
Cash and cash equivalents - Ending	\$ 296,434.00	\$ 712,970.00	\$ 2,087,039.00	\$ 3,096,443.00
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 316,275.00	\$ 17,719.00	\$ 0.00	\$ 333,994.00
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and Amortization	126,507.00	0.00	4,336.00	130,843.00
Unrealized (gain) loss	(4,153.00)			(4,153.00)
Loss on sale of property, plant and equipment	7,487.00			7,487.00
Change in assets and liabilities:				0.00
(Increase) Decrease in Receivables	(180,655.00)	(449,162.00)	(1,168,990.00)	(1,798,807.00)
(Increase) Decrease in Other Assets		3,550.00		3,550.00
Increase (Decrease) in Payables	60,763.00	1,243,415.00	3,166,457.00	4,470,635.00
Increase (Decrease) in Deferred Revenues			39,579,750.00	39,579,750.00
Increase (Decrease) in Other Liabilities	3,955.00			3,955.00
Total Adjustments	13,904.00	797,803.00	41,581,553.00	42,393,260.00
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 330,179.00</b>	<b>\$ 815,522.00</b>	<b>\$ 41,581,553.00</b>	<b>\$ 42,727,254.00</b>

(Note A)

Noncash Transaction - Total Net Increase in Fair Market Value of Investments \$1,601,888.00.

Note A-The Component Units have a fiscal year end of Dec. 31, 2000. Financial information presented is representative of that fiscal year date.

The accompanying Notes to the Financial Statements are an integral part of this financial statement.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A: ENTITY

The Texas Department of Insurance is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for State Agencies.

The Texas Department of Insurance is provided for in Articles 1.02 - 1.09, Texas Insurance Code (Vernon 1981 and Supp. 1986). Article 1.09 states: "The Texas Department of Insurance is created to regulate the business of insurance in this state." Our entity is a part of the statewide report and our component will be subject to audit by the State Auditor. The history of the Agency dates back to the Texas Constitution of 1876. Since then, the composition of the Agency has changed several times. The latest change took place in 1993 when House Bill No. 1461, 73rd Legislature, Regular Session, amended the Insurance Code to establish the Commissioner of Insurance as the primary policy-setting authority and to abolish the three-member State Board of Insurance no later than September 1, 1994. The Board transferred all remaining power to the Commissioner effective December 16, 1993.

The Texas Department of Insurance includes with this report all components as determined by an analysis of their relationship to the Texas Department of Insurance as listed below.

The accompanying financial statements of the Texas Department of Insurance have been prepared to conform with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

#### Blended Component Units

No component units have been identified which should have been blended into an appropriate fund.

#### Discrete Component Units

These component units are legally separate from the state, but are financially accountable to the state, or have a relationship with the state such that exclusion would cause the financial statements to be misleading. The component unit columns of the financial statements include the financial data of these entities.

- The Surplus Lines Stamping Office of Texas was created in August, 1987, by the 70th Legislature of the State of Texas to assist the Texas Department of Insurance in the regulation of surplus lines insurance and encourage compliance by surplus lines agents and insurers with the surplus lines law and the rules of the Texas Department of Insurance. The Texas Department of Insurance approves operating procedures for the administration of the Stamping Office.
- The Texas Health Reinsurance System is a new component unit. It is a not-for-profit entity created to assure the availability of appropriate health care coverage to Texas residents and to provide a reinsurance mechanism to facilitate the provision of small employer coverage. The Commissioner approves the assessment formula by which assessments are made against reinsured carries.
- The Texas Health Insurance Risk Pool is a new component unit. It is governed by a nine-member board appointed by the Commissioner of Insurance. The Commissioner approves rates and rate schedules used by the Risk Pool. The purpose of the entity is to provide access to quality health care at minimum cost to the public, to relieve the insurable population of the disruptive cost of sharing coverage and to maximize reliance on strategies of managed care proven by the private sector.

#### B: FUND STRUCTURE

The accompanying financial statements are presented on the basis of funds and account groups, each of which is considered a separate accounting entity.

#### GOVERNMENTAL FUND TYPES

##### General Fund

The general fund is used to account for all financial resources of the State except those required to be accounted for in another fund.

## TEXAS DEPARTMENT OF INSURANCE (454)

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

## PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for operations financed and operated in a manner similar to private business. The intent is to recover costs through user charges or that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for management control, accountability and other purposes.

## FIDUCIARY FUND TYPES

Expendable Trust Funds

Expendable trust funds are used to account for trust funds whose principal and interest may be expended in the course of their designated operations.

Agency Funds

Agency funds are used to account for assets held as an agent for individuals, other government entities, and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

## ACCOUNT GROUPS

General Fixed Assets Account Group

Fixed assets used by the Agency are accounted for in the General Fixed Assets Account Group, with the exception of those acquired by and accounted for in proprietary, nonexpendable trust and pension trust funds.

General Long-Term Debt Account Group

This account group is used to account for long-term debt to be financed in future periods from governmental funds.

**C: MEMORANDUM TOTALS**

The total columns on the financial statements are captioned "Memorandum Only" to indicate that they are for informational purposes only. Data in these columns does not present the financial position, results of operations, or changes in financial position in conformity with GAAP, nor is such data comparable to a consolidation.

**D: BASIS OF ACCOUNTING**

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Expenditures are generally recognized when the related fund liability is incurred. Exceptions are unpaid employee compensable leave and the unmatured debt service on long-term capital leases, which are not recognized until actual payment is made. The principal of this long-term liability is reported in the General Long-Term Debt Account Group.

Proprietary funds, nonexpendable trust funds and pension trust funds are accounted for on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow.

**E: BUDGETS AND BUDGETARY ACCOUNTING**

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (the General Appropriations Act). Encumbrance accounting is employed for budgetary control purposes.

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

**F: ASSETS, LIABILITIES AND FUND EQUITY****ASSETS**Cash and Cash Equivalents

For the component units, cash equivalents consist of money market funds and investments with maturity dates of less than 90 days when purchased and are carried at cost, which approximates fair market value.

Investments

Investments are stated at fair value in all funds except pension trust funds in accordance with GASB Statement 31-Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

Inventories

Consumable inventories include supplies and postage on hand at year-end.

Inventories for governmental funds are accounted for using the purchase method of accounting. The cost of these items is recognized as an expenditure at the time of purchase. These assets are offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources."

Fixed Assets

Purchases of fixed assets by governmental or similar trust funds are reported as expenditures. They are capitalized at cost or, if not purchased, at appraised value on the date of acquisition. There is no provision for depreciation or obsolescence of these fixed assets since replacements are financed from current resources.

Proprietary, nonexpendable trust and pension trust fund purchases of fixed assets are reported in those funds at cost or, if donated, at fair market value on the acquisition date. Depreciation is charged to operations of the funds over the estimated useful lives of the assets.

Other Assets

Other Assets include securities owned by insurance companies that are held in trust by the Texas Department of Insurance as required by state statute.

**LIABILITIES**Accounts Payable

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Other Payables

Other Payables include the liability for claim losses incurred but not reported prior to the close of the accounting period, and expenses for investigating and adjusting claims.

Employees' Compensable Leave

Employees' compensable leave represents the liability that the Agency will be required to liquidate in the future for employee vacation time.

**RESERVATIONS/DESIGNATIONS OF FUND EQUITY**

Reservations of fund balance represent fund balance of governmental and fiduciary fund types that are legally restricted to a specific use.

Reserved for Encumbrances

The reservation for encumbrances represents commitments of the value of contracts awarded or assets ordered prior to year-end but not received as of that date. Encumbrances are not included with expenditures or liabilities. They represent current resources designated for specific expenditures in subsequent operating periods.

Reserved for Consumable Inventories

This represents the amount of supplies and postage held to be used in the next fiscal year.

Reserved for Imprest Accounts

This represents a travel advance fund and a petty cash change fund at the Agency. The travel advance fund is for the purpose of advancing travel moneys to those employees who are required to

TEXAS DEPARTMENT OF INSURANCE (454)

travel on official state business. Moneys advanced from this fund are reimbursed as needed but at least quarterly. Petty Cash fund is used for reimbursement of employee expenses.

INTERFUND TRANSACTIONS AND BALANCES

Quasi-External Transactions

Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Operating Transfers

Legally required transfers that are reported when incurred as "Operating transfers in" by the recipient fund and as "Operating transfers out" by the disbursing fund.

The composition of the agency's interfund receivables and payables at August 31, 2001 is presented in Note 7.

**NOTE 2: FIXED ASSETS**

A summary of changes in General Fixed Assets for the year ended August 31, 2001:

Asset Type	Balance 9/1/00	Adjustments	Additions	Deletions	Balance 8/31/01
Vehicles	\$ 732,260.96	\$ 57,827.08	\$ 112,986.00	\$ (110,822.12)	\$ 792,251.92
Furniture & Equipment	8,924,948.59	565,733.83	655,509.56	(2,972,016.49)	7,174,175.49
Other Fixed Assets	86,369.36	15,150.64	1,700.00	(0.00)	103,220.00
Totals	\$ 9,743,578.91	\$ 638,711.55	\$ 770,195.56	\$ (3,082,838.61)	\$ 8,069,647.41

(Exh I)

**NOTE 3: DEPOSITS, INVESTMENTS & REPURCHASE AGREEMENTS**

The Texas Department of Insurance reports investments held in the Texas Treasury Safekeeping Trust Company. The Texas Treasury Safekeeping Trust Company is authorized by statute to make investments following the "prudent person rule". There were no significant violations of legal provisions during the period.

DEPOSITS OF CASH IN BANK

- a. The carrying amount of \$(1,602,476.14) for Cash in Bank (including discretely presented component units) is presented below.
- b. The bank balance of the Texas Department of Insurance has been classified according to the following risk categories:

**Category 1** - Insured or collateralized with securities held by the governmental entity or by its agent in the name of the governmental entity

**Category 2** - Collateralized with securities held by the pledging financial institution's trust department or agent in the governmental entity's name

**Category 3** - Uncollateralized

Category 1	Category 2	Category 3	Carrying Amount
\$ 833,620.86	\$ .00	\$ .00	\$ 833,620.86

Consisting of the following:

Demand Deposits	\$ 722,939.15
Texas Treasury Safekeeping Trust	110,681.71
Total Cash in Bank (Exhibit I)	\$ 833,620.86

Deposits for Discretely Presented Component Units are:

Category 1	Category 2	Category 3	Carrying Amount (Exhibit I)
\$ (2,436,097.00)	\$ 0.00	\$ 0.00	\$ (2,436,097.00)

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Discrete Component Unit:

The Risk Pool invests all idle cash in overnight repurchase agreements collateralized by government securities at a minimum amount of 102% of invested fair value. The entity's accounts are swept each night and idle cash is invested in the aforementioned, repurchase agreements. Therefore, cash balances at days end reflect an overdraft equal to checks issued and cleared at the time.

INVESTMENTS

The fair values of investments as of the balance sheet date including both short-term and long-term are shown below. Investments are categorized to give an indication of the level of risk assumed by the agency at year-end. The three categories are:

**Category 1** – Investments that are insured or registered or for which the securities are held by the agency or its agent in the agency's name.

**Category 2** – Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the agency's name.

**Category 3** – Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the agency's name.

Type of Security	Category 1	Category 2	Category 3	Fair Value
Misc. Investments	\$ 10,972,969.15	\$	\$	\$ 10,972,969.15
Repurch. Agreements-Texas Treasury Safekeeping Trust	426,203,561.18			426,203,561.18
Total Investments	<u>\$ 437,176,530.33</u>	<u>\$</u>	<u>\$</u>	<u>\$ 437,176,530.33</u>
Consisting of the Following:				
Short-Term Invest.(Exh I)	\$ 437,176,530.33	\$	\$	\$ 437,176,530.33
Total, as above	<u>\$ 437,176,530.33</u>	<u>\$</u>	<u>\$</u>	<u>\$ 437,176,530.33</u>

Investments for Discretely Presented Component Units are:

Type of Security	Category 1	Category 2	Category 3	Fair Value
US Gov't Investments	\$ 47,517,344.00	\$	\$	\$ 47,517,344.00
Misc. Investments	2,744,971.00			2,744,971.00
Repurch. Agreements	2,787,569.00			2,787,569.00
Total Investments	<u>\$ 53,049,884.00</u>	<u>\$</u>	<u>\$</u>	<u>\$ 53,049,884.00</u>
Consisting of the Following:				
Short-Term Invest.(Exh. I)	\$ 5,532,540.00	\$	\$	\$ 5,532,540.00
Long-Term Invest. (Exh. I)	47,517,344.00			47,517,344.00
Total, as above	<u>\$ 53,049,884.00</u>	<u>\$</u>	<u>\$</u>	<u>\$ 53,049,884.00</u>

**NOTE 4: GENERAL LONG-TERM DEBT**

**Changes in General Long-Term Debt**

During the year ended August 31, 2001, the following changes occurred in liabilities reported in the general long-term debt account.

	Balance 9/1/00	Additions	Deductions	Balance 8/31/01
Compensable Leave	<u>\$ 3,779,566.01</u>	<u>\$ 4,009,039.44</u>	<u>\$ 3,716,844.06</u>	<u>\$ 4,071,761.39</u>
				(Exh I)

**Employees' Compensable Leave**

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental and/or Expendable Trust fund types. For these fund types, the liability for unpaid benefits is recorded in

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the General Long-Term Debt Account Group with a corresponding account designated "Amounts To Be Provided in Future Years". An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

**NOTE 5: CAPITAL LEASE OBLIGATIONS**  
N/A

**NOTE 6: OPERATING LEASE OBLIGATIONS**

Included in the expenditures or expenses reported in the financial statements are the following amounts of rent paid or due under operating leases:

General Revenue	\$	256,159.52
Special Revenue Funds		428,551.89
Total – Memorandum Only	\$	<u>684,711.41</u>

Discrete Component Units:

Proprietary Funds	\$	264,608.00
Total – Memorandum Only	\$	<u>264,608.00</u>

Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year are as follows:

Year Ended August 31,		
2002	\$	217,845.38
2003		134,196.48
2004		75,255.00
2005		16,496.15
2006 and beyond		0.00
Total Minimum Future Lease Rental Payments	\$	<u>443,793.01</u>

Discrete Component Units:

Year Ended December 31,		
2001	\$	227,619.00
2002		227,619.00
2003		0.00
2004		0.00
2005		0.00
2006 and beyond		0.00
Total Minimum Future Lease Rental Payments	\$	<u>455,238.00</u>

**NOTE 7: INTERFUND BALANCES/ACTIVITIES**

As explained in Note 1, on Interfund Transactions and Balances there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as Interfund Receivables or Interfund Payables, Advances From or Advances To, Due From or Due To Other Agencies, Transfers In or Transfers Out. Individual balances and activity at August 31, 2001, were as follows:

	Due From Other Agencies	Due To Other Agencies	Source
GENERAL REVENUE	\$	\$	
(Appropriated Fund 0036)			
(Agency 241, Fund 0036) (Act)		379,795.97	Transfer
(Agency 302, Fund 0036) (Act)		257,880.46	Transfer
(Agency 320, Fund 0165) (Act)		2,982.43	Transfer
(Agency 411, Fund 0036) (Act)		269,441.22	Transfer
(Agency 479, Fund 0001) (Act)		10,515.10	Transfer
(Agency 576, Fund 0036) (Act)		337,514.30	Transfer
(Agency 902, Fund 0001) (Act)		34,527.83	Transfer
<b>Federal Pass-Through</b>			
(Agency 340, Fund 0134)	4,636.00		Federal P-T
Total Due To/From (Exh I)	<u>\$ 4,636.00</u>	<u>\$1,292,657.31</u>	

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	Operating Transfers In	Operating Transfers Out
	\$	\$
GENERAL REVENUE		
(Appropriated Fund 0036)		
(Agency 241, Fund 0036) (Act)		932,169.00
(Agency 302, Fund 0036) (Act)		3,373,660.93
(Agency 303, Fund 0036) (Act)		4,004,081.00
(Agency 411, Fund 0036) (Act)		3,103,584.20
(Agency 411, Fund 9000) (Act)	24,649.00	
(Agency 576, Fund 0036) (Act)		3,886,108.47
(Agency 902, Fund 0001)	48,510,871.34	791,431.00
Total General Revenue	<u>48,535,520.34</u>	<u>16,091,034.60</u>
SPECIAL REVENUE		
(Appropriated Fund 9999)		
(Agency 454, Fund 9923)	4,578,166.06	
Total Special Revenue	<u>4,578,166.06</u>	
Total Operating Transfers (Exh II)	<u>\$ 53,113,686.40</u>	<u>\$ 16,091,034.60</u>

**NOTE 8: EMPLOYEES RETIREMENT PLANS**

The State has joint contributory retirement plans for substantially all its employees. The Agency participates in the plans administered by the Employees Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The System does not account for each state agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions.

Discrete Component Units:

In December 2000, the Board of Directors authorized the creation of the Surplus Lines Stamping Office of Texas 401(k) Employee Defined Contribution Plan (the "Plan"). Substantially all full-time employees are eligible to participate in the Plan. The Plan replaces the Surplus Lines Stamping Office of Texas Employees' 403(b) Retirement Plan as the only currently funded employer-sponsored plan of the Stamping Office. Under the Plan, the Stamping Office contributes 2.5% (3.5% after five years of service) of eligible annual compensation in the form of a discretionary contribution. The Stamping Office will match employee contributions up to a maximum of 2.5%. Total employer contributions to the Plan for the year ended December 31, 2000 were \$ 9,788.

Risk Pool employees are covered by a "Simple-IRA" Plan administered by a third party administrator. The Plan was effective October 1, 1998. Under the Plan, the Risk Pool funds a 100% matching contribution equal to the employee's salary reduction contributions, up to 3% of the employee's compensation. In 2000, total Risk Pool pension expense was \$3,211.

**NOTE 9: DEFERRED COMPENSATION**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX.GOV'T. CODE ANN., sec 609.001. Two plans are available for employees' deferred compensation plan. Both plans are administered by the Employees Retirement System.

The state's 457 plan complies with the Internal Revenue Code Sec. 457. GASB Statement No. 32, effective for financial statements for periods beginning after December 31, 1998, rescinds GASB Statement No. 2 and amends GASB Statement No. 31, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457*, established reporting requirement for IRC section 457 plans.

The state also administers another plan; "Texsaver" created in accordance with Internal Revenue Code Sec. 401(k). The assets of this plan do not belong to the state. The state has no liability related to this plan.

**NOTE 10: CONTINGENT LIABILITIES**

Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid to the employee only in case of illness or to the employee's estate in the event of his/her death while employed by the Agency. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated entitlement or 336 hours, whichever is less. The Agency's policy is to recognize the cost of any sick leave when paid. No liability is recorded in the General Long-Term Debt Account Group since experience indicates the probability of a material effect on any given year's operations, as a result of death or abnormally high rate of illness, is minimal.

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The Agency is involved in several lawsuits, including the following:

- Personnel There are two lawsuits against TDI by current or former TDI employees challenging TDI personnel decisions. One lawsuit was filed by multiple plaintiffs. All but two of the plaintiffs have dismissed their claims against TDI. TDI does not anticipate that the remaining plaintiffs will pursue the lawsuit. This lawsuit does not specify an amount sought. Likewise, the other lawsuit does not specify an amount sought.
- Regulatory There are a number of pending actions to which TDI is a party in connection with TDI's regulatory duties. These generally do not seek monetary relief, other than attorneys' fees, but rather seek to reverse a regulatory action of the Commissioner.

Discrete Component Units:

The Risk Pool is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess to the amounts provided will not have a material adverse effect on the financial position of the Risk Pool. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Risk Pool.

**NOTE 11: CONTINUANCE SUBJECT TO REVIEW**

On August 29, 1977, the Department became subject to the provisions of S.B. 54, 65th Leg. Reg. Sess. (1977) titled the "Texas Sunset Act". During fiscal year 1993 the Sunset Advisory Commission completed a review of the Agency and issued a final report recommending the Agency be continued for a twelve-year period. The 73rd Legislature subsequently approved the recommendation. The Agency will be abolished on September 1, 2005, unless continued in existence as provided by the Act. If abolished, the Agency may continue until September 1, 2006, to close out its operations.

**NOTE 12: RISK FINANCING AND RELATED INSURANCE**

The Texas Department of Insurance is exposed to a variety of civil claims resulting from the performance of its duties. It is the agency's policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

The Agency assumes substantially all risks associated with tort claims and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance, nor is the agency involved in any risk pools with other government entities.

The Agency's liabilities are reported when it is both probable that a loss has occurred and the amount of that can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors.

Changes in the balances of the agency's claims liabilities during the fiscal 2000 and 2001 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year End
2000	\$ 0.00	\$ 179,347.46	\$ 179,347.46	\$ 0.00
2001	0.00	121,270.48	121,270.48	0.00

**NOTE 13: SEGMENT INFORMATION**

The Surplus Lines Stamping Office of Texas was created to assist the Texas Department of Insurance in the regulation of surplus lines insurance, and to encourage compliance with the surplus lines law and the rules of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee, as approved by TDI. By law, the stamping fee cannot exceed 0.75% of gross eligible premiums resulting from surplus lines contracts.

The Texas Health Reinsurance System reinsures health benefit coverage for small employers' eligible employees and their dependents. Members may be assessed retroactively based on the net losses of the Reinsurance System. The plan of operation which describes the method of assessment has been approved by the Insurance Commissioner of the State of Texas.



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The Texas Health Insurance Risk Pool purpose is to provide for access to quality health care at minimum cost to the public, to relieve the insurable population of the disruptive cost of sharing coverage, and to maximize reliance on strategies of managed care proven by the private sector. In order to recover the net loss, if any, from the previous year, the Board of Directors of the Pool may assess insurance companies authorized in Texas to transact any kind of insurance business to which the Act applies. Any amount in excess of actual losses may be used by the Board to offset future losses or reduce future assessments.

Information relating to these activities is presented below.

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool
Operating Revenues	\$ 2,349,267.00	\$ 4,512,212.00	\$ 68,342,325.00
Depreciation/Amortization	126,507.00		4,336.00
Operating Income/Loss	316,275.00	17,719.00	0.00
Net Income/Loss	316,275.00	17,719.00	0.00
Net Working Capital*	563,408.00	-17,535.00	-9,596,248.00
Total Assets	2,624,234.00	2,942,898.00	50,609,391.00
Fund Equity	2,464,707.00	-14,923.00	0.00
Property, Plant and Equipment Net Addition	395,877.00		5,710.00
*Working Capital Calculation:			
Cash and Temporary Investments	\$ 296,434.00	\$ 712,970.00	\$ 2,087,039.00
Receivables	426,501.00	2,227,316.00	1,966,747.00
Payables	-159,527.00	-2,957,821.00	-13,650,034.00
Net Working Capital	\$ 563,408.00	\$ -17,535.00	\$ -9,596,248.00

**NOTE 14: BONDED INDEBTEDNESS**

N/A

**NOTE 15: SUBSEQUENT EVENTS**

N/A

**NOTE 16: RELATED PARTIES**

Liquidation Oversight is primarily funded by the assets of receiverships. Currently, there are two and three-fourths appropriated and eight and three-fourths allocated employees; however, there are budgeted positions for two and three-fourths appropriated and eleven and one-half allocated employees. Liquidation Oversight operations include legal, docketing, financial/auditing and records management.

**NOTE 17: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

N/A

**NOTE 18: THE FINANCIAL REPORTING ENTITIES & JOINT VENTURES**

**A. The Financial Reporting Entity**

Sunset legislation in 1993 abolished the three-member State Board of Insurance. All management, regulatory and policy-making responsibility of the Texas Department of Insurance (TDI) is now vested in the Commissioner of Insurance, who is appointed by the Governor for a two-year term, subject to confirmation by the Senate. As required by generally accepted accounting principles, these financial statements present TDI (the primary government) and its component units. The component units discussed in Note B are included in the agency's reporting entity because of the significance of their operational or financial relationships with the state.

**B. Individual Component Unit Disclosures**

**Discretely Presented Component Units:**

The component unit column in the combined financial statements includes the financial data of the Texas Department of Insurance component units. They are reported in a separate column to emphasize that they are legally separate from the Texas Department of Insurance. The Commissioner appoints the board members of the component units.

TEXAS DEPARTMENT OF INSURANCE (454)

1. The *Surplus Lines Stamping Office of Texas* was created pursuant to Article 1.14-2, Section 6A of the Texas Insurance Code to assist this Agency in the regulation of surplus lines insurance, encourage compliance by surplus lines agents and insurers with the surplus lines law and the rules of the Texas Department of Insurance. The stamping office performs its functions under a plan of operation approved by order of the Texas Department of Insurance.
2. The *Texas Health Reinsurance System* reinsures risks covered under the health benefit plans of small employers' insurance carriers. The Commissioner of Insurance appoints the nine member board.
3. The *Texas Health Insurance Risk Pool* provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The Texas Department of Insurance approves all rates and rate schedules before they are used.

Complete financial statements of the individual component units can be obtained from their respective administrative offices.

**Administrative Offices**

Surplus Lines Stamping Office of Texas  
 P.O. Box 9906  
 Austin, Texas 78766-0906

Texas Health Insurance Risk Pool  
 2512 South IH 35, Suite 110  
 Austin, TX 78704

Texas Health Reinsurance System  
 100 Great Meadow Road, Suite 112  
 Wethersfield, CT 06109

**C. Related and Other Organizations**

1. The **Life, Accident, Health and Hospital Service Insurance Guaranty Association** was created pursuant to Article 21.28-D of the Texas Insurance Code (TIC) for the protection of persons 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 that issued the policies or contracts. The Commissioner shall appoint a board of directors of the association consisting of nine members.
2. The **Texas Title Insurance Guaranty Association** was created pursuant to Article 9.48 of the TIC for the purpose of providing funds for the protection of holders of "covered claims". This shall apply to all title insurance written by title insurance companies authorized to do business in this state. The Commissioner shall appoint the nine-member board of directors.

**Administrative Offices:**

Life, Accident, Health and Hospital Service  
 Insurance Guaranty Association  
 301 Congress, Suite 500  
 Austin, TX 78701

Texas Title Insurance Guaranty Association  
 301 Congress, Suite 800  
 Austin, TX 78768-2212

**NOTE 19: RESTATEMENT OF FUND BALANCES/RETAINED EARNINGS**

During FY 2001, the Risk Pool and the Reinsurance System were added as discretely presented component units which requires the restatement of the amount in fund balances and fund equity as shown and discussed below:

- a. Changes in accounting and reporting entity

	<u>Component Unit Proprietary Fund</u>
Fund Balance/Equity Beginning of Year	\$ 2,148,432.00
Restatements:	
a.	-32,642.00
Fund Balance/Equity Beginning of Year As Restated	<u><u>\$ 2,115,790.00</u></u>

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**EXHIBIT A-1  
COMBINING BALANCE SHEET:  
Component Units/Proprietary Funds**

August 31, 2001

	Component Units			TOTALS
	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	(Exh I)
	\$	\$	\$	FY 2001
<b>ASSETS</b>				
Cash and Temporary Investments:				
Cash in Bank	296,434.00	712,970.00	(3,445,501.00)	(2,436,097.00)
Short-Term Investments			5,532,540.00	5,532,540.00
Investments	976,078.00		46,541,266.00	47,517,344.00
Receivables:				
Interest and Dividends Receivable	48,387.00			48,387.00
Accounts Receivable	378,114.00	2,227,316.00	1,966,747.00	4,572,177.00
Fixed Assets:				
Furniture and Equipment	1,711,598.00		20,412.00	1,732,010.00
Less: Accumulated Depreciation	(786,377.00)		(7,411.00)	(793,788.00)
Other Assets		2,612.00	1,338.00	3,950.00
<b>TOTAL ASSETS</b>	<u>\$ 2,624,234.00</u>	<u>\$ 2,942,898.00</u>	<u>\$ 50,609,391.00</u>	<u>\$ 56,176,523.00</u>
<b>LIABILITIES</b>				
Payables				
Accounts Payable	159,527.00	77,563.00	442,034.00	679,124.00
Other Payables		2,880,258.00	13,208,000.00	16,088,258.00
Deferred Revenues			36,959,357.00	36,959,357.00
<b>TOTAL LIABILITIES</b>	<u>\$ 159,527.00</u>	<u>\$ 2,957,821.00</u>	<u>\$ 50,609,391.00</u>	<u>\$ 53,726,739.00</u>
<b>FUND EQUITY</b>				
Retained Earnings Unreserved	2,464,707.00	(14,923.00)		2,449,784.00
<b>TOTAL FUND EQUITY</b>	<u>2,464,707.00</u>	<u>(14,923.00)</u>	<u>0.00</u>	<u>2,449,784.00</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 2,624,234.00</u>	<u>\$ 2,942,898.00</u>	<u>\$ 50,609,391.00</u>	<u>\$ 56,176,523.00</u>

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**EXHIBIT B-1  
COMBINING BALANCE SHEET - Fiduciary Fund Types**

August 31, 2001

	EXPENDABLE TRUST (9999) U/F(0050)	AGENCY FUNDS (EXH C-1)	TOTALS (EXH I) FY 2001
<b>ASSETS</b>	\$	\$	\$
Cash and Temporary Investments:			
Cash In Bank		110,351.71	110,351.71
Cash in State Treasury		1,598,793.54	1,598,793.54
Short-Term Investments	277,806,104.97	151,895,489.78	429,701,594.75
Other Assets		907,526,114.94	907,526,114.94
<b>TOTAL ASSETS</b>	<u>\$ 277,806,104.97</u>	<u>\$ 1,061,130,749.97</u>	<u>\$ 1,338,936,854.94</u>
<b>LIABILITIES</b>	\$	\$	\$
Funds Held For Others		1,061,130,749.97	1,061,130,749.97
<b>TOTAL LIABILITIES</b>	<u>\$ 0.00</u>	<u>\$ 1,061,130,749.97</u>	<u>\$ 1,061,130,749.97</u>
<b>FUND EQUITY</b>	\$	\$	\$
Fund Balances			
Reserved for -			
Unreserved / Undesignated Other	277,806,104.97		277,806,104.97
<b>TOTAL FUND EQUITY</b>	<u>277,806,104.97</u>	<u>0.00</u>	<u>277,806,104.97</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<u>\$ 277,806,104.97</u>	<u>\$ 1,061,130,749.97</u>	<u>\$ 1,338,936,854.94</u>

**EXHIBIT C-1**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND**  
**LIABILITIES - All Agency Funds**

For the fiscal year ended August 31, 2001

	Balances September 1, 2000	Additions	Deductions	Balances August 31, 2001
	\$	\$	\$	\$
<b>Departmental Suspense (0900) U/F (0900)</b>				
<b>Assets:</b>				
Cash in State Treasury	135,739.53	3,751,616.39	3,742,997.64	144,358.28
<b>Liabilities:</b>				
Funds Held for Others	135,739.53	3,751,616.39	3,742,997.64	144,358.28
<b>USPS Overpayments to Employees Fund (0900) U/F (9015)</b>				
<b>Assets:</b>				
Cash in State Treasury	453.78	4,216.72	4,670.50	0.00
<b>Liabilities:</b>				
Funds Held for Others	453.78	4,216.72	4,670.50	0.00
<b>Savings Bond Account (0901) U/F (0901)</b>				
<b>Assets:</b>				
Cash in State Treasury	4,700.00	52,562.50	53,100.00	4,162.50
<b>Liabilities:</b>				
Funds Held for Others	4,700.00	52,562.50	53,100.00	4,162.50
<b>Life, Health, Accident and Casualty Insurance Companies Trust Account (0921) U/F (0921)</b>				
<b>Assets:</b>				
Cash in State Treasury	289,488.00	316,088.00	289,488.00	316,088.00
Other Assets	769,963,887.26	845,393,687.38	769,963,887.26	845,393,687.38
Total Assets	770,253,375.26	845,709,775.38	770,253,375.26	845,709,775.38
<b>Liabilities:</b>				
Funds Held for Others	\$ 770,253,375.26	\$ 845,709,775.38	\$ 770,253,375.26	\$ 845,709,775.38

TEXAS DEPARTMENT OF INSURANCE (454)

**EXHIBIT C-1 (Continued)**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND**  
**LIABILITIES - ALL AGENCY FUNDS**

For the fiscal year ended August 31, 2001

	Balances September 1, 2000	Additions	Deductions	Balances August 31, 2001
	\$	\$	\$	\$
<b>Insurance Companies Unclaimed Dividend Trust Account (0923) U/F (0923)</b>				
<b>Assets:</b>				
Cash in State Treasury	5,543,853.99	6,185,480.22	10,595,149.45	1,134,184.76
<b>Liabilities:</b>				
Funds Held for Others	5,543,853.99	6,185,480.22	10,595,149.45	1,134,184.76
<b>Custodial Accounts Fund (9999) U/F (2999)</b>				
<b>Assets:</b>				
Cash in Bank	0.00	110,351.71	0.00	110,351.71
Short-Term Investments	108,688,195.01	43,207,294.77	0.00	151,895,489.78
Investments	30,768,800.95	0.00	30,768,800.95	0.00
Other Assets	58,968,697.30	3,163,730.26	0.00	62,132,427.56
Total Assets	198,425,693.26	46,481,376.74	30,768,800.95	214,138,269.05
<b>Liabilities:</b>				
Funds Held for Others	198,425,693.26	46,481,376.74	30,768,800.95	214,138,269.05
<b>Totals - All Agency Funds</b>				
<b>Assets:</b>				
Cash in Bank	0.00	110,351.71	0.00	110,351.71
Cash in State Treasury	5,974,235.30	10,309,963.83	14,685,405.59	1,598,793.54
Short-Term Investments	108,688,195.01	43,207,294.77	0.00	151,895,489.78
Investments	30,768,800.95	0.00	30,768,800.95	0.00
Other Assets	828,932,584.56	848,557,417.64	769,963,887.26	907,526,114.94
Total Assets	974,363,815.82	902,185,027.95	815,418,093.80	1,061,130,749.97
<b>Liabilities:</b>				
Funds Held for Others	974,363,815.82	902,185,027.95	815,418,093.80	1,061,130,749.97
	\$ 974,363,815.82	\$ 902,185,027.95	\$ 815,418,093.80	\$ 1,061,130,749.97

TEXAS DEPARTMENT OF INSURANCE (454)

**SCHEDULE 1A  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the fiscal year ended August 31, 2001

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	CFDA number	Identifying Number	Pass-Through From			Direct Program Amount
			Agy./ Univ. #	Agencies or Univ. Amount	Non-State Entities Amount	
<b>U.S. Dept of Health and Human Svcs</b>						
Direct Program:						
State Planning Grant	93.000	6 P09 OA 00030-01		\$	\$	\$ 287,747.95
Pass-Through From:						
Texas Department on Aging						
Health Care Financing Research, Demonstrations, and Evaluations	93.779		340	<u>119,228.00</u>		<u>287,747.95</u>
Total U.S. Dept. of Health and Human Svcs				<u>119,228.00</u>		<u>287,747.95</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				\$ <u>119,228.00</u>	\$	\$ <u>287,747.95</u>

UNAUDITED

Total PT From & Direct Program	Pass-Through To			Expenditures Amount	Total PT To & Expenditures
	Agy./ Univ. #	State Agy. or Univ. Amount	Non-State Entities Amount		
\$ 287,747.95		\$	\$	\$ 287,747.95	\$ 287,747.95
<u>119,228.00</u>				<u>119,228.00</u>	<u>119,228.00</u>
<u>406,975.95</u>				<u>406,975.95</u>	<u>406,975.95</u>
\$ <u>406,975.95</u>		\$	\$	\$ <u>406,975.95</u>	\$ <u>406,975.95</u>

**Note 1 - Reconciliation**

Below is a reconciliation of the total of federal pass-through and federal expenditures as reported on the schedule of Federal Financial Assistance to the total of federal revenues and federal pass-through revenues as reported in the general purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

Per Combined Statement of Revenues	
Expenditures, and Changes in Fund	
Balance - Governmental Fund Types (Exh. II):	
Federal Revenue	\$ 287,747.95
Federal Grant Pass-Through Revenue	<u>119,228.00</u>
Total Pass-Through and Expenditures per Federal Schedule	\$ <u>406,975.95</u>



TEXAS DEPARTMENT OF INSURANCE (454)

## SCHEDULE 2

### SUMMARY OF REVENUES

For the fiscal year ended August 31, 2001

#### REVENUES COLLECTED BY THE TEXAS DEPARTMENT OF INSURANCE

#### REVENUES FUND 0036

	<u>AMOUNT</u>
<b>FEDERAL FUNDS</b>	
Fund 0036 - State Planning Grant - Federal Receipts	\$ 287,747.95
Fund 0036 - Department of Aging Contract - Federal Pass-Through	119,228.00
<b>TOTAL FEDERAL FUNDS</b>	<u>406,975.95</u>
<b>LICENSES, FEES, AND PERMITS</b>	
Fund 0036 - Catastrophic Pool Inspection Fees	11,799.00
Fund 0036 - License Fee - Title Insurance Companies	134,093.00
Fund 0036 - Domestic Filing Fees - Life	216,685.65
Fund 0036 - Foreign Filing Fees - Life	57,972.90
Fund 0036 - Domestic Filing Fees - Property and Casualty	196,466.24
Fund 0036 - Foreign Filing Fees - Property and Casualty	98,207.00
Fund 0036 - License and Exam Fees - Insurance Adjusters and Agents	10,071,996.77
Fund 0036 - Agents Certification and Clearance Letters	1,315,831.36
Fund 0036 - Filing Fees - Third Party Administrators	100,354.00
Fund 0036 - Filing Fees - Risk Retention & Purchasing Groups	9,700.00
Fund 0036 - Examination Q of C Sal/Travl	2,642,985.86
Fund 0036 - Examination Fees - Overhead Assessment	8,815,043.67
Fund 0036 - Filing Fees - Policy Approval	533,780.33
Fund 0036 - Filing Fees - Health Maintenance Organizations	147,933.70
Fund 0036 - Filing Fees - Insurance Premium Finance	62,060.00
Fund 0036 - Examination and Assessment Fees - Insurance Premium Finance	351,090.00
Fund 0036 - Amusement Ride Safety Inspections	61,980.00
Fund 0036 - State Fire Marshal Fees	1,626,892.09
Fund 0036 - Miscellaneous Certification Fees	3,088.50
Fund 0036 - Copy Fees	56,444.66
<b>TOTAL LICENSES, FEES, AND PERMITS</b>	<u>26,514,404.73</u>
<b>SALES OF GOODS AND SERVICES</b>	
Fund 0036 - Sale of Lists, Bulletins, Rating Data, etc.	72,500.34
Fund 0036 - Sale of Computer Lists, Labels or Tapes	11,311.61
Fund 0036 - Miscellaneous Other Sales	3,250.00
<b>TOTAL SALES OF GOODS AND SERVICES</b>	<u>87,061.95</u>
<b>OTHER REVENUES</b>	
Fund 0036 - Warrants Voided By Statute of Limitations	2,469.80
Fund 0036 - Reimbursements - Third Party	1,169,817.73
Fund 0036 - Reimbursement of Conservation Expenses	117,405.20
Fund 0036 - Subrogation Recoveries	546.39
Fund 0036 - Other Miscellaneous Governmental Revenue	1,417.38
<b>TOTAL OTHER REVENUES</b>	<u>1,291,656.50</u>
<b>TOTAL FUND 0036 REVENUES</b>	<u>\$ 28,300,099.13</u>

## TEXAS DEPARTMENT OF INSURANCE (454)

**SCHEDULE 2 (Continued)**

<b>AGENCY FUNDS COLLECTIONS</b>	<b>AMOUNT</b>
Fund 0001 - State Sales Tax/Discounts	\$ 3,938.15
Fund 0001 - Viatical Settlement Registration Fees	19,509.18
Fund 0001 - Utilization Review Fees	126,526.00
Fund 0001 - Filing Fees - Continuing Care Facilities	28,018.00
Fund 0001 - Returned Check Fees	1,129.00
Fund 0001 - Retaliatory Fees	380.00
Fund 0001 - Interest on Local Deposits	235.85
Fund 0923 - Interest Earned Unclaimed Dividend Trust Account Fund	276,707.04
Fund 0001 - Judgments (Secured by Court Action)	48,207.51
Fund 0001 - Penalty In Lieu of Suspension/Cancellation	1,399,696.29
Fund 0001 - Other Miscellaneous Governmental Revenue	548.39
Fund 0882 - City/MTA Sales Tax Trust	1,252.94
Fund 0001 - SFMO-Fireworks, Education Safety	64,830.00
Fund 0001 - Specialty Insurance Agents Lic	289,913.00
<b>TOTAL AGENCY FUNDS COLLECTIONS</b>	<b>2,260,891.35</b>
<b>TOTAL FUND 0036 REVENUES/AGENCY FUND COLLECTIONS - TDI</b>	<b>30,560,990.48</b>
<b>REVENUES COLLECTED BY THE COMPTROLLER OF PUBLIC ACCOUNTS AND TRANSFERRED TO THE TEXAS DEPARTMENT OF INSURANCE</b>	
Fund 0036 - Motor Vehicle Maintenance Tax	5,514,994.42
Fund 0036 - Fire and Allied Lines Maintenance Tax	17,712,036.08
Fund 0036 - Workers' Compensation Maintenance Tax	2,074,013.21
Fund 0036 - Casualty Maintenance Tax	5,466,410.48
Fund 0036 - Title Maintenance Fee	855,123.88
Fund 0036 - Life/Accident and Health Maintenance Tax	8,524,100.40
Fund 0036 - Third Party Administrator Maintenance Tax	884,569.23
Fund 0036 - Health Maintenance Organization Maintenance Tax	4,449,849.07
Fund 0036 - Prepaid Legal Services Maintenance Tax	68.73
Fund 0036 - Domestic Valuation Fees - Life	2,819,759.31
Fund 0036 - Annual Statement Filing Fees	209,946.53
<b>TOTAL REVENUES TRANSFERRED TO THE TEXAS DEPARTMENT OF INSURANCE</b>	<b>48,510,871.34</b>
<b>TOTAL REVENUES</b>	<b>\$ 79,071,861.82</b>

Note 1: Amounts shown above for Fund 0001 are collected by the Texas Department of Insurance in an agency capacity.

These revenues have been transferred to Agency 902.

Note 2: Fund 0036 amounts collected by the Texas Department of Insurance are presented as Revenues on Exhibit II under General Revenue. Fund 0036 amounts transferred from the Comptroller of Public Accounts are presented as Operating Transfers In (See Note 7- Agency 902, Fund 0001) on Exhibit II under General Revenue.

TEXAS DEPARTMENT OF INSURANCE (454)

## SCHEDULE 2A COMPARATIVE STATEMENT OF REVENUES

1992 - 2001

<u>FISCAL YEAR</u>	<u>TAXES COLLECTED</u>	<u>LICENSES &amp; FEES</u>	<u>OTHER REVENUES</u>	<u>TOTAL</u>
	\$	\$	\$	\$
1992	516,882,995	26,028,158	2,247,722	545,158,875
1993	461,184,296	28,953,773	3,366,426	493,504,495
1994*	101,204,844	23,200,415	6,118,120	130,523,379
1995*	80,478,984	21,523,266	1,779,561	103,781,811
1996*	55,714,235	27,141,097	2,633,587	85,488,919
1997*	65,420,869	22,144,590	6,484,140	94,049,599
1998*	43,324,253	27,631,504	4,362,699	75,318,456
1999*	43,473,181	25,142,085	5,539,619	74,154,885
2000*	42,203,384	29,035,734	1,548,859	72,787,977
2001*	45,486,357	30,074,416	3,511,089	79,071,862

Note: The tax collection function of the Texas Department of Insurance was transferred to the Comptroller of Public Accounts on September 1, 1993. Therefore, beginning in 1994, revenues collected by and/or transferred to the Texas Department of Insurance are included on this schedule.