

**2002**

**Annual Financial Report**  
Document 2 of 2



**Texas Department of Insurance**



**Texas Department of Insurance**

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**José Montemayor**  
Commissioner of Insurance

November 18, 2002

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

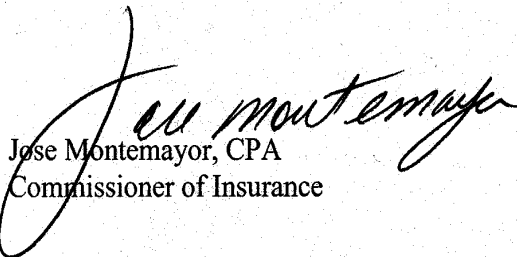
Dear Public Officials:

We are pleased to submit the *Annual Financial Report* of the Texas Department of Insurance for the year ended August 31, 2002, in compliance with *Tex. Gov't Code, Ann. §2101.011*, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the significant changes related to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to be in compliance with GAAP. The 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,

  
José Montemayor, CPA  
Commissioner of Insurance

TEXAS DEPARTMENT OF INSURANCE  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2002

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**Texas Department of Insurance (454)**  
**Exhibit I - Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

August 31, 2002

	<u>Governmental Fund Types</u>		
	<u>General Funds (Ex A-1)</u>	<u>Special Revenue Funds (9999) U/F(1999)</u>	<u>Governmental Funds Total</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash on Hand	\$ 685.00	\$ -	\$ 685.00
Cash in Bank (Note 3)	25,000.00	908,829.22	933,829.22
Cash in State Treasury	46,251,358.86		46,251,358.86
Short Term Investments (Note 3)		7,321,792.06	7,321,792.06
Receivables:			
Federal	160,532.86		160,532.86
Accounts Receivable	1,985,096.18	520,286.84	2,505,383.02
Due From Other Agencies (Note 7)	4,051.00		4,051.00
Consumable Inventories	61,214.70		61,214.70
Total Current Assets	<u>48,487,938.60</u>	<u>8,750,908.12</u>	<u>57,238,846.72</u>
Capital Assets (Note 2):			
Non-Depreciable			
Other Capital Assets			
Depreciable			
Furniture and Equipment			
Accumulated Depreciation			
Vehicle, Boats, and Aircraft			
Accumulated Depreciation			
Other Capital Assets			
Accumulated Depreciation			
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 48,487,938.60</u>	<u>\$ 8,750,908.12</u>	<u>\$ 57,238,846.72</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Current Liabilities:			
Payables:			
Accounts Payable	\$ 1,758,261.16	\$ 1,217,612.65	\$ 2,975,873.81
Payroll Payable	4,182,175.81		4,182,175.81
Due To Other Agencies (Note 7)	946,840.24		946,840.24
Employees Compensable Leave (Note 4)			
Total Current Liabilities	<u>6,887,277.21</u>	<u>1,217,612.65</u>	<u>8,104,889.86</u>
Non-Current Liabilities:			
Employees Compensable Leave (Note 4)			
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>6,887,277.21</u>	<u>1,217,612.65</u>	<u>8,104,889.86</u>

The accompanying notes to the financial statements are an integral part of this statement.

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<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Net Assets</b>
\$ -	\$ -	\$ -	\$ 685.00
			933,829.22
			46,251,358.86
			7,321,792.06
			160,532.86
			2,505,383.02
			4,051.00
			61,214.70
-	-	-	<u>57,238,846.72</u>
91,350.00			91,350.00
3,710,282.06			3,710,282.06
(2,288,825.80)			(2,288,825.80)
891,187.63			891,187.63
(762,562.41)			(762,562.41)
11,070.00			11,070.00
(3,426.08)			(3,426.08)
<u>1,649,075.40</u>	-	-	<u>1,649,075.40</u>
<u>\$ 1,649,075.40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,887,922.12</u>
\$ -	\$ -	\$ -	\$ 2,975,873.81
			4,182,175.81
			946,840.24
	2,341,198.98		2,341,198.98
-	2,341,198.98	-	10,446,088.84
	1,460,835.94		1,460,835.94
-	1,460,835.94	-	1,460,835.94
-	3,802,034.92	-	11,906,924.78

The accompanying notes to the financial statements are an integral part of this statement.

**UNAUDITED**

**Texas Department of Insurance (454)**

**Exhibit I - Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

August 31, 2002

	<b>Governmental Fund Types</b>		
	<b>General Funds (Ex A-1)</b>	<b>Special Revenue Funds (9999) U/F(1999)</b>	<b>Governmental Funds Total</b>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>			
Fund Balances (Deficits):			
Reserved for:			
Encumbrances	\$ 154,818.62	\$ -	\$ 154,818.62
Inventories	61,214.70		61,214.70
Imprest	25,685.00		25,685.00
Unreserved Designated for:			
Undesignated	41,358,943.07	7,533,295.47	48,892,238.54
Total Fund Balances	41,600,661.39	7,533,295.47	49,133,956.86
Total Liabilities and Fund Balances	\$ 48,487,938.60	\$ 8,750,908.12	\$ 57,238,846.72

**GOVERNMENT-WIDE STATEMENT-NET ASSETS**

Net Assets:

Invested in Capital Assets, Net of Related Debt

Unrestricted

Total Net Assets

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<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Net Assets</b>
\$ -	\$ -	\$ -	\$ 154,818.62 61,214.70 25,685.00
-	-	-	48,892,238.54
-	-	-	49,133,956.86
\$ -	\$ 3,802,034.92	\$ -	\$ 61,040,881.64
1,649,075.40	(3,802,034.92)	-	1,649,075.40 (3,802,034.92)
\$ 1,649,075.40	\$ (3,802,034.92)	\$ -	\$ (2,152,959.52)

The accompanying notes to the financial statements are an integral part of this statement.

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**Texas Department of Insurance (454)**  
**Exhibit II - Combined Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances/Statement of Activities – Governmental Funds**

For the Fiscal Year Ended August 31, 2002

	General Funds (Ex A-2)	Special Revenue Funds (9999) U/F(1999)	Governmental Funds Total
<b>REVENUES</b>			
Federal Revenue (Sch 1A)	\$ 933,564.52	\$ -	\$ 933,564.52
Federal Pass-Through Revenue (Sch 1A)	91,036.00		91,036.00
Licenses, Fees & Permits	28,790,299.57	278,474.29	29,068,773.86
Sales of Goods and Services	66,387.45		66,387.45
Interest and Other Investment Income		156,527.34	156,527.34
Other	1,641,551.65		1,641,551.65
Total Revenues	<u>31,522,839.19</u>	<u>435,001.63</u>	<u>31,957,840.82</u>
<b>EXPENDITURES</b>			
Salaries and Wages	42,944,807.75	478,842.57	43,423,650.32
Payroll Related Costs	11,359,353.77		11,359,353.77
Professional Fees and Services	842,707.46	11,058.31	853,765.77
Travel	1,567,860.16		1,567,860.16
Materials and Supplies	2,727,447.15	8,727.47	2,736,174.62
Communication and Utilities	950,577.87	30,097.80	980,675.67
Repairs and Maintenance	816,937.29	1,337.19	818,274.48
Rentals & Leases	433,801.48	148,787.16	582,588.64
Printing and Reproduction	344,870.93		344,870.93
Claims and Judgments	2,539.00		2,539.00
Other Expenditures	4,057,131.77	13,142.48	4,070,274.25
Capital Outlay	531,539.27		531,539.27
Depreciation Expense			-
Total Expenditures/Expenses	<u>66,579,573.90</u>	<u>691,992.98</u>	<u>67,271,566.88</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(35,056,734.71)</u>	<u>(256,991.35)</u>	<u>(35,313,726.06)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In (Note 7)	57,020,675.01	610,742.23	57,631,417.24
Transfers Out (Note 7)	(18,145,886.34)		(18,145,886.34)
Sale of Capital Assets	14,724.56		14,724.56
Legislative Transfers Out (Note 7)	(18,717.81)		(18,717.81)
Net Change in Reserve for Inventories	14,730.00		14,730.00
Gain (Loss) on Sale of Capital Assets			-
Increase/Decrease in Net Assets Due to Interagency Transfer of Capital Assets			
Total Other Financing Sources and Uses	<u>38,885,525.42</u>	<u>610,742.23</u>	<u>39,496,267.65</u>
Net Change in Fund Balances/Net Assets	<u>3,828,790.71</u>	<u>353,750.88</u>	<u>4,182,541.59</u>

The accompanying notes to the financial statements are an integral part of this statement.



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Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Activities
\$ -	\$ -	\$ -	\$ 933,564.52
			91,036.00
			29,068,773.86
			66,387.45
			156,527.34
			1,641,551.65
<u>-</u>	<u>-</u>	<u>-</u>	<u>31,957,840.82</u>
	(269,726.47)		43,153,923.85
			11,359,353.77
			853,765.77
			1,567,860.16
(14,730.00)			2,721,444.62
			980,675.67
			818,274.48
			582,588.64
			344,870.93
			2,539.00
			4,070,274.25
(531,539.27)			-
545,774.44			545,774.44
<u>(494.83)</u>	<u>(269,726.47)</u>	<u>-</u>	<u>67,001,345.58</u>
494.83	269,726.47	-	(35,043,504.76)
			57,631,417.24
			(18,145,886.34)
(14,724.56)			-
			(18,717.81)
(14,730.00)			-
3,795.80			3,795.80
(26,772.10)			(26,772.10)
<u>(52,430.86)</u>	<u>-</u>	<u>-</u>	<u>39,443,836.79</u>
<u>(51,936.03)</u>	<u>269,726.47</u>	<u>-</u>	<u>4,400,332.03</u>

The accompanying notes to the financial statements are an integral part of this statement.

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**Texas Department of Insurance (454)**  
**Exhibit II - Combined Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances/Statement of Activities – Governmental Funds**

For the Fiscal Year Ended August 31, 2002

	<b>General Funds (Ex A-2)</b>	<b>Special Revenue Funds (9999) U/F(1999)</b>	<b>Governmental Funds Total</b>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>			
Fund Balances--Beginning	\$ 37,771,870.68	\$ 7,179,544.59	\$ 44,951,415.27
Restatements	-	-	-
Fund Balances, September 1, 2001, as Restated	<u>37,771,870.68</u>	<u>7,179,544.59</u>	<u>44,951,415.27</u>
Fund Balances--August 31, 2002	<u><u>\$ 41,600,661.39</u></u>	<u><u>\$ 7,533,295.47</u></u>	<u><u>\$ 49,133,956.86</u></u>

**GOVERNMENT-WIDE STATEMENT-NET ASSETS**

Change in Net Assets

Net Assets-Beginning

Adjustments to Beginning Net Assets:

Convert from Fund Balances to Net Assets (CPA)

FY01 Capital Assets Balances in GFAAG

Reduce for Threshold Increase of Capital Assets

Accumulated Depreciation from Prior Years

Other Adjustments

FY01 Compensable Leave Balance in GLTDAG

Net Assets, September 1, 2001, as Restated and Adjusted

Net Assets-August 31, 2002

UNAUDITED

<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Activities</b>
\$ -	\$ -	\$ -	\$ 44,951,415.27
-	-	-	-
-	-	-	44,951,415.27
(51,936.03)	269,726.47	-	217,790.44
8,069,647.41			8,069,647.41
(3,725,639.97)			(3,725,639.97)
(2,716,999.42)			(2,716,999.42)
74,003.41			
	(4,071,761.39)		(4,071,761.39)
1,701,011.43	(4,071,761.39)	-	(2,444,753.37)
<u>\$ 1,649,075.40</u>	<u>\$ (3,802,034.92)</u>	<u>\$ -</u>	<u>\$ (2,152,959.52)</u>

The accompanying notes to the financial statements are an integral part of this statement.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit III - Combined Statement of Net Assets**  
**Proprietary Funds**

August 31, 2002

	<b>Total Proprietary Component Units (Exhibit L-1)</b>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank (Note 3)	\$ 5,268,983.00
Cash Equivalents (Note 3)	1,848,796.00
Short Term Investments (Note 3)	39,046,633.00
Receivables:	
Interest and Dividends	26,331.00
Accounts Receivable	2,633,118.00
Taxes	21,268.00
Other	4,821,735.00
Total Current Assets	53,666,864.00
Non-Current Assets:	
Capital Assets:	
Depreciable:	
Furniture and Equipment	2,340,812.00
Accumulated Depreciation	(917,760.00)
Other Non-Current Assets	1,338.00
Total Non-Current Assets	1,424,390.00
Total Assets	55,091,254.00
<b>LIABILITIES</b>	
Current Liabilities:	
Payables:	
Accounts Payable	932,239.00
Deferred Revenue	29,390,843.00
Other Liabilities	7,639,406.00
Notes and Loans Payable	500,000.00
Total Current Liabilities	38,462,488.00
Non-Current Liabilities:	
Other Liabilities	11,680,000.00
Total Non-Current Liabilities	11,680,000.00
Total Liabilities	50,142,488.00
<b>NET ASSETS</b>	
Unrestricted	4,948,766.00
<b>Total Net Assets</b>	<b>\$ 4,948,766.00</b>

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

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**Texas Department of Insurance (454)**  
**Exhibit IV - Combined Statement of Revenues, Expenses,**  
**and Changes in Net Assets**  
**Proprietary Funds**

For the Fiscal Year Ended August 31, 2002

	<b>Total Proprietary Component Units (Exhibit L-2)</b>
<b>OPERATING REVENUES:</b>	
Sales of Goods and Services:	
Other Sales of Goods and Services	\$ 3,928,459.00
Premium Revenue	63,012,696.00
Interest and Investment Income	2,047,996.00
Other Operating Revenues	39,696,818.00
Total Operating Revenues	108,685,969.00
<b>OPERATING EXPENSES:</b>	
Salaries and Wages	1,109,836.00
Payroll Related Costs	271,247.00
Professional Fees and Services	8,426,545.00
Travel	4,679.00
Materials and Supplies	144,200.00
Communication and Utilities	9,337.00
Repairs and Maintenance	13,169.00
Rentals and Leases	323,062.00
Printing and Reproduction	5,405.00
Depreciation and Amortization	135,161.00
Other Operating Expenses	95,744,346.00
Total Operating Expenses	106,186,987.00
Operating Income (Loss)	2,498,982.00
Change in Net Assets	2,498,982.00
Total Net Assets, September 1, 2001	2,449,784.00
Restatements	-
Total Net Assets, September 1, 2001, as Restated	2,449,784.00
Total Net Assets, August 31, 2002	\$ 4,948,766.00

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

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**Texas Department of Insurance (454)  
Exhibit V - Combined Statement of Cash Flows –  
Proprietary Funds**

For the Fiscal Year Ended August 31, 2002

	<b>Total Proprietary Component Units (Exhibit L-3 )</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 69,377,676.00
Proceeds from Loan Programs	500,000.00
Proceeds from Other Revenues	28,833,999.00
Payments to Suppliers for Goods and Services	(96,955,697.00)
Payments to Employees	(1,155,818.00)
Payments for Other Expenses	(4,429,545.00)
Net Cash Provided by Operating Activities	(3,829,385.00)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Payments for Other Uses	(873.00)
Net Cash Provided by Noncapital Financing Activities	(873.00)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from the Sale of Capital Assets	2,169.00
Payments for Additions to Capital Assets	(621,288.00)
Net Cash Provided by Capital and Related Financing Activities	(619,119.00)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sales of Investments	200,040,080.00
Proceeds from Interest and Investment Income	(1,649,504.00)
Payments to Acquire Investments	(189,919,863.00)
Net Cash Provided by Investing Activities	8,470,713.00
Net (Decrease) in Cash and Cash Equivalents	4,021,336.00
Cash and Cash Equivalents--September 1, 2001	3,096,443.00
Restatement to Beginning Cash & Cash Equivalents	-
Cash and Cash Equivalents--August 31, 2002	\$ 7,117,779.00

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit V - Combined Statement of Cash Flows –**  
**Proprietary Funds (con't)**

For the Fiscal Year Ended August 31, 2002

	<b>Total Proprietary Component Units (Exhibit L-3)</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
<b>Operating Income (Loss)</b>	\$ 2,498,982.00
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
Amortization and Depreciation	135,161.00
Operating Income and Cash Flow Categories: Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(2,903,945.00)
(Increase) Decrease in Prepaid Expenses	22,056.00
(Increase) Decrease in Loans & Contracts	500,000.00
(Increase) Decrease in Other Assets	2,612.00
Increase (Decrease) in Payables	3,226,609.00
Increase (Decrease) in Deferred Income	(7,568,514.00)
Increase (Decrease) in Other Liabilities	257,654.00
Total Adjustments	(6,328,367.00)
<b>Net Cash Provided by Operating Activities</b>	\$ (3,829,385.00)
<b>Non Cash Transactions</b>	
Net Increase (Decrease) in Fair Value of Investments	\$ -

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

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**Texas Department of Insurance (454)**  
**Exhibit VI - Combined Statement of Fiduciary Net Assets**  
**Fiduciary Funds**

August 31, 2002

	<b>Private- Purpose Trust (Exhibit I-1)</b>	<b>Agency Funds (Exhibit J-1)</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank (Note 3)	\$ 946.01	\$ -	\$ 946.01
Cash in State Treasury		814,684.88	814,684.88
Short Term Investments (Note 3)	408,043,287.01		408,043,287.01
Other Current Assets	75,280,675.94	963,752,583.25	1,039,033,259.19
Total Current Assets	483,324,908.96	964,567,268.13	1,447,892,177.09
Total Assets	483,324,908.96	964,567,268.13	1,447,892,177.09
<b>LIABILITIES</b>			
Current Liabilities:			
Funds Held for Others	75,280,675.94	964,567,268.13	1,039,847,944.07
Total Current Liabilities	75,280,675.94	964,567,268.13	1,039,847,944.07
Total Liabilities	75,280,675.94	964,567,268.13	1,039,847,944.07
<b>NET ASSETS</b>			
Held in trust for:			
Individuals, Organizations, and Other Governments:			
Expendable	408,044,233.02		408,044,233.02
Total Net Assets	\$ 408,044,233.02	\$ -	\$ 408,044,233.02



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**Texas Department of Insurance (454)**  
**Exhibit VII - Combined Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**

August 31, 2002

	<b>Private- Purpose Trust</b> (Exhibit I-2)	<b>Totals</b>
<b>ADDITIONS</b>		
Investment Income:		
From Investing Activities		
Interest and Investment Income	\$ 8,246,582.50	\$ 8,246,582.50
Total Investing Income	8,246,582.50	8,246,582.50
Less Investing Activities Expense	-	-
Net Income from Investing Activities	8,246,582.50	8,246,582.50
 Total Net Investment Income	 8,246,582.50	 8,246,582.50
 Other Additions		
Other Revenue	46,038,801.98	46,038,801.98
Total Other Additions	46,038,801.98	46,038,801.98
 Total Additions	 54,285,384.48	 54,285,384.48
<b>DEDUCTIONS</b>		
Professional Fees and Services	4,082,000.00	4,082,000.00
Settlement of Claims	70,889,028.41	70,889,028.41
Other Expense	82,069.51	82,069.51
Transfers Out (Note 7)	1,000,000.00	1,000,000.00
Total Deductions	76,053,097.92	76,053,097.92
 <b>NET INCREASE (DECREASE)</b>	 (21,767,713.44)	 (21,767,713.44)
 Net Assets- Beginning of the Year	429,811,946.46	429,811,946.46
Restatements	-	-
Beginning of Year, As Restated	429,811,946.46	429,811,946.46
 Net Assets - End of the Year	 \$ 408,044,233.02	 \$ 408,044,233.02

## TEXAS DEPARTMENT OF INSURANCE (454)

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****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.

Due to significant changes related to Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to be in compliance with generally accepted accounting principles (GAAP). The 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.

Blended Component Units

No component units have been identified which should have been blended into an appropriated 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 or incomplete. 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 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 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.

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### TEXAS DEPARTMENT OF INSURANCE (454)

#### FUND STRUCTURE

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

#### GOVERNMENTAL FUND TYPES AND GOVERNMENT-WIDE ADJUSTMENT FUND TYPES

##### General Fund

The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds.

##### Special Revenue Funds

Special Revenue funds are used to account for the proceeds of specific revenue sources (other than for private-purpose trusts or for major capital projects) that are legally restricted to use for specified purposes.

##### Capital Asset Adjustment Fund Type

Capital Asset Adjustment fund type will be used to convert governmental fund types' capital assets from modified accrual to full accrual.

##### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund type will be used to convert governmental fund types' debt from modified accrual to full accrual.

##### Other Adjustments Fund Type

Other Adjustments fund type will be used to convert all other governmental fund types' activity from modified accrual to full accrual.

#### PROPRIETARY FUND TYPES

##### Enterprise Funds

Enterprise funds are used to account for any activity when a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity.
2. Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service), be recovered with fees and charges.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

#### FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private purpose trust fund is used.

##### Agency Funds

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

##### Private-Purpose Trust Funds

Private-Purpose Trust funds are used to account for all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

#### COMPONENT UNITS

The fund types of the individual discrete component units are available from the component units' separately issued financial statements. Additional information about component units can be found in Note 18.

*Proprietary Component Units* are used to account for the discretely presented component units which follow proprietary fund measurement focus and accounting principles.

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### TEXAS DEPARTMENT OF INSURANCE (454)

#### **BASIS OF ACCOUNTING**

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual method basis of accounting. Under the modified accrual, revenues are recognized in the period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year for Fund Financial Statements prepared on the modified basis of accrual. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual method of accounting. This includes unpaid Employee Compensable Leave, the unmatured debt service (principal and interest) on general long-term liabilities, long-term capital leases, and long-term claims and judgements. The activity will be recognized in these new funds.

Proprietary funds, pension trust funds, external investment trust funds and private-purpose trust funds are accounted for on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for the enterprise and internal services funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

#### **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).

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

#### **ASSETS, LIABILITIES AND FUND EQUITY**

##### ASSETS

###### Cash and Cash Equivalents

Short-term highly liquid investments with an original maturity of three months or less are considered cash equivalents.

###### Inventories

Consumable inventories include supplies and postage on hand at year-end. Inventories are valued at cost, generally utilizing the last-in, first-out method. Inventories for governmental fund types are the purchase method of accounting. The consumption method of accounting is used to account for inventories that appear in the proprietary fund types and the government-wide statements. The cost of these items is expensed when the items are consumed.

###### Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year should be capitalized. These assets are capitalized at cost or, if any purchased, at appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. "Inexhaustible" assets such as a library or works of art are not depreciated. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

All capital assets acquired by proprietary funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

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### TEXAS DEPARTMENT OF INSURANCE (454)

#### 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 are the accrual at year-end of expenditure transactions not included in any of the other payable descriptions. Other payables may be included in either the governmental or proprietary fund types.

##### Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that become "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the statement of net assets.

#### FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary and fiduciary statements, and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

##### Reservations of Fund Balance

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reservations are legally restricted to a specific future use or not available for expenditure.

##### Reserved for Encumbrances

This 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, postage and prepaid assets to be used in the next fiscal year.

##### Unreserved/Undesignated

Other represents the unappropriated balance at year-end.

##### Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bond, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.

#### INTERFUND TRANSACTIONS AND BALANCES

##### The agency has the following types of transactions among funds:

- (1) Transfers: Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund.
- (2) Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.

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TEXAS DEPARTMENT OF INSURANCE (454)

**NOTE 2: CAPITAL ASSETS**

A summary of changes in Capital Assets for the year ended August 31, 2002 is presented below:

Asset Type	PRIMARY GOVERNMENT					Balance 8/31/02
	Balance 9/1/01	Adjustments*	Reclass- ification	Additions	Deletions	
Governmental activities:						
Non-depreciable Assets						
Other Capital Assets	\$ 87,000.00	\$ 0.00	\$ 0.00	\$ 4,350.00	\$ (0.00)	\$ 91,350.00
Total non-depreciable assets	87,000.00	0.00	0.00	4,350.00	(0.00)	91,350.00
Depreciable Assets						
Furniture and Equipment	7,174,175.49	(3,715,489.97)		440,982.27	(189,385.73)	3,710,282.06
Vehicles	792,251.92	74,003.41		131,984.88	(107,052.58)	891,187.63
Other Capital Assets	16,220.00	(10,150.00)		5,000.00	(0.00)	11,070.00
Total depreciable assets at historical costs	7,982,647.41	(3,651,636.56)	0.00	577,967.15	(296,438.31)	4,612,539.69
Less accumulated depreciation for:						
Furniture and Equipment		(1,981,975.50)		(481,875.91)	175,025.61	(2,288,825.80)
Vehicles		(733,000.64)		(136,473.61)	106,911.84	(762,562.41)
Other Capital Assets		(2,023.28)		(1,402.80)	0.00	(3,426.08)
Total accumulated depreciation	0.00	(2,716,999.42)	0.00	(619,752.32)	281,937.45	(3,054,814.29)
Depreciable assets, net	7,982,647.41	(6,368,635.98)	0.00	(41,785.17)	(14,500.86)	1,557,725.40
Governmental activities capital assets, net	<u>\$ 8,069,647.41</u>	<u>\$ (6,368,635.98)</u>	<u>\$ 0.00</u>	<u>\$ (37,435.17)</u>	<u>\$ (14,500.86)</u>	<u>\$ 1,649,075.40</u>

**Adjustment Column Worksheet**

Asset Type	GASB 34/35 Fund Type Changes	Infrastructure	Capitalization Threshold Changes	Accumulated Depreciation	Other Adjustments	Total Adjustments
Governmental activities:						
Non-depreciable Assets						
Other Capital Assets	\$	\$	\$	\$	\$	\$
Total non-depreciable assets	0.00	0.00	0.00	0.00	(0.00)	0.00
Depreciable Assets						
Furniture and Equipment			(3,715,489.97)			(3,715,489.97)
Vehicles			(0.00)		74,003.41	74,003.41
Other Capital Assets			(10,150.00)			(10,150.00)
Total depreciable assets at historical costs	0.00	0.00	(3,725,639.97)	0.00	74,003.41	(3,651,636.56)
Less accumulated depreciation for:						
Furniture and Equipment				(1,981,975.50)		(1,981,975.50)
Vehicles				(733,000.64)		(733,000.64)
Other Capital Assets				(2,023.28)		(2,023.28)
Total accumulated depreciation**	0.00	0.00	0.00	(2,716,999.42)	0.00	(2,716,999.42)
Depreciable assets, net	0.00	0.00	(3,725,639.97)	(2,716,999.42)	74,003.41	(6,368,635.98)
Governmental activities capital assets, net	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (3,725,639.97)</u>	<u>\$ (2,716,999.42)</u>	<u>\$ 74,003.41</u>	<u>\$ (6,368,635.98)</u>

\* Adjustment column includes GASB 34 fund type changes, capitalization threshold changes, assets that were not previously reported and accumulated depreciation.

\*\* These amounts do not tie to the sample exhibits; they are listed here to illustrate how these balances would be reported under full accrual.

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TEXAS DEPARTMENT OF INSURANCE (454)

**NOTE 3: DEPOSITS, INVESTMENTS AND 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 \$8,052,554.23 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 (which would include any deposits collateralized with securities held by the pledging financial institutions, or by its trust department or agent but not in the governmental entity’s name).

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
<u>\$ 934,775.23</u>	<u>\$ .00</u>	<u>\$ .00</u>	<u>\$ 934,775.23</u>	<u>\$ 934,775.23</u>

Consisting of the following:

Governmental Funds Demand Deposits (Exh. I) \$ 933,829.22

Fiduciary Funds - Texas Treasury Safekeeping Trust (Exh. VI) 946.01

Total Deposits Carrying Amount \$ 934,775.23

Deposits for Discretely Presented Component Units are:

<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
<u>\$ 7,117,779.00</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 7,117,779.00</u>	<u>\$ 7,117,779.00</u>

Consisting of the following:

Demand Deposits and Money Market Accounts \$ 5,268,983.00

Cash Equivalents 1,848,796.00

Total Cash and Cash Equivalents (Exh. III) \$ 7,117,779.00

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.

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TEXAS DEPARTMENT OF INSURANCE (454)

Type of Security	Category 1	Category 2	Category 3	Fair Value
U.S. Gov't Obligations	\$ 18,559,388.33	\$	\$	\$ 18,559,388.33
Repurchase Agreements- Texas Treasury Safekeeping Trust	396,805,690.74			396,805,690.74
Total Investments	<u>\$ 415,365,079.07</u>	<u>\$</u>	<u>\$</u>	<u>\$ 415,365,079.07</u>
Consisting of the following:				
Governmental Funds				
Current Short-Term Investments (Exh. I)	\$ 7,321,792.06	\$	\$	\$ 7,321,792.06
Fiduciary Funds Current Short-Term Investments (Exh. VI)	\$ 408,043,287.01	\$	\$	\$ 408,043,287.01
Total Investments per Financial Statements	<u>\$ 415,365,079.07</u>	<u>\$</u>	<u>\$</u>	<u>\$ 415,365,079.07</u>

Investments for Discretely Presented Component Units are:

Type of Security	Category 1	Category 2	Category 3	Fair Value
US Gov't Investments	\$ 39,046,633.00	\$	\$	\$ 39,046,633.00
Total Investments	<u>\$ 39,046,633.00</u>	<u>\$</u>	<u>\$</u>	<u>\$ 39,046,633.00</u>
Consisting of the Following:				
Short-Term Investments (Exh. III)	\$ 39,046,633.00	\$	\$	\$ 39,046,633.00
Total Investments per Financial Statements	<u>\$ 39,046,633.00</u>	<u>\$</u>	<u>\$</u>	<u>\$ 39,046,633.00</u>

**Reverse Repurchase Agreements**

The Texas Treasury Safekeeping Trust Company, by statute, is authorized to enter into reverse repurchase agreements. A reverse repurchase agreement is a transaction in which a broker-dealer or financial institution transfers cash to the Trust and the Trust transfers securities to the broker-dealer and promises to repay the cash plus interest in exchange for the same or similar securities. Credit risk exposure for the Trust arises when a broker-dealer does not return the securities or their value at the conclusion of the reverse repurchase agreement. There were no significant violations of legal or contractual provisions during the year.

**NOTE 4: SUMMARY OF LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2002, the following changes occurred in liabilities.

Governmental Activities	Balance 9/1/01	Additions	Reductions	Balance 8/31/02	Amounts Due Within One Year
Compensable Leave	\$ 4,071,761.39	\$ 4,032,508.50	\$ 4,302,234.97	\$ 3,802,034.92	\$ 2,341,198.98
Total Governmental Activities	<u>\$ 4,071,761.39</u>	<u>\$ 4,032,508.50</u>	<u>\$ 4,302,234.97</u>	<u>\$ 3,802,034.92</u>	<u>\$ 2,341,198.98</u>

**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 fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. 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.



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TEXAS DEPARTMENT OF INSURANCE (454)

**NOTE 5: CAPITAL LEASES**

N/A

**NOTE 6: OPERATING LEASE OBLIGATIONS**

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

Year Ended August 31, 2002	
2003	\$ 218,830.44
2004	167,548.00
2005	99,008.52
2006	53,063.28
2007	45,412.08
2008 – 2012	0.00
2013 – 2017	0.00
Total Minimum Future Lease Rental Payments	<u>\$ 583,862.32</u>

**NOTE 7: INTERFUND BALANCES/ACTIVITY**

As explained in Note 1 on Interfund Activities and Balances there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid are reported as:

Due From Other Agencies or Due To Other Agencies  
 Transfers In or Transfers Out  
 Legislative Transfers In or Legislative Transfers Out

Individual balances and activity at August 31, 2002, follows:

	Due From Other Agencies	Due To Other Agencies	Source
GENERAL REVENUE			
Appropriated Fund 0036	\$	\$	
(Agency 241, Fund 0036)		495,891.91	Transfer
(Agency 302, Fund 0036)		312,655.23	Transfer
(Agency 320, Fund 0165)		10,131.27	Transfer
(Agency 411, Fund 0036)		13,320.90	Transfer
(Agency 576, Fund 0036)		114,840.93	Transfer
<b>Federal Pass-Through</b>			
(Agency 340, Fund 0134)	<u>4,051.00</u>		Federal P-T
Total Due From/To Other Agencies (Exh I)	<u>\$ 4,051.00</u>	<u>\$ 946,840.24</u>	

	Transfers In	Transfers Out
GENERAL REVENUE		
Appropriated Fund 0001	\$	\$
(Agency 902, Fund 0001)		9,022.45
Total Transfers for Fund 0001		<u>9,022.45</u>

GENERAL REVENUE		
Appropriated Fund 0036		
(Agency 241, Fund 0036)		1,060,212.00
(Agency 302, Fund 0036)		3,512,242.37
(Agency 303, Fund 0036)		4,064,653.00
(Agency 411, Fund 0036)		3,330,242.72
(Agency 454, Fund 9999)	1,000,000.00	
(Agency 576, Fund 0036)		5,176,567.80
(Agency 902, Fund 0001)	<u>56,020,675.01</u>	<u>992,946.00</u>
Total Transfers for Fund 0036	<u>57,020,675.01</u>	<u>18,136,863.89</u>

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TEXAS DEPARTMENT OF INSURANCE (454)

	<u>Transfers In</u>	<u>Transfers Out</u>
SPECIAL REVENUE		
Appropriated Fund 9999	\$	\$
(Agency 454, Fund 0923)	610,742.23	
Total Transfers for Fund 9999	<u>610,742.23</u>	
PRIVATE PURPOSE TRUST		
Appropriated Fund 9999		1,000,000.00
(Agency 454, Fund 0036)		1,000,000.00
Total Transfers for Fund 9999		<u>1,000,000.00</u>
Total Transfers	<u>\$ 57,631,417.24</u>	<u>\$ 19,145,886.34</u>
	<u>Legislative Transfers In</u>	<u>Legislative Transfers Out</u>
GENERAL REVENUE		
Appropriated Fund 0001	\$	\$
(Agency 902, Fund 0001)		18,717.81
Total Legislative Transfers	<u>\$ 0.00</u>	<u>\$ 18,717.81</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.

**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 also administers another plan; "TexaSaver" 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**

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

- Personnel There is one lawsuit against TDI by current or former TDI employees challenging a personnel decision made by TDI. The pending lawsuit was filed by multiple plaintiffs. All but two of the plaintiffs have dismissed their claims against TDI. Although it is not likely that the remaining two plaintiffs will continue to pursue this matter, the case remains pending in Travis County District Court. This 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.

The Agency has received a federal grant for a specific purpose that is subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grant. Based on prior experience, management believes such disallowances, if any, will be immaterial.

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TEXAS DEPARTMENT OF INSURANCE (454)

**NOTE 11: CONTINUANCE SUBJECT TO REVIEW**

Under the Texas Sunset Act, the Agency will be abolished on September 1, 2005, unless continued in existence by the 79<sup>th</sup> Legislature 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 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 loss 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. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

Changes in the balances of the agency's claims liabilities during the fiscal 2001 and 2002 were as follows:

	<b>Beginning of Fiscal Year Liability</b>	<b>Current Year Claims and Changes in Estimates</b>	<b>Claims Payments</b>	<b>Balance at Fiscal Year End</b>
2001	\$ 0.00	\$ 121,270.48	\$ 121,270.48	\$ 0.00
2002	0.00	2,539.00	2,539.00	0.00

**NOTE 13: SEGMENT INFORMATION**

N/A

**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 nine and one-half allocated employees and no appropriated employees; however, there are budgeted positions for twelve and one-half allocated employees and none for appropriated employees. Liquidation Oversight operations include legal, docketing, financial/auditing and records management.

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

N/A

TEXAS DEPARTMENT OF INSURANCE (454)

**NOTE 18: THE FINANCIAL REPORTING ENTITY AND JOINT VENTURES**

**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 below are included in the agency's reporting entity because of the significance of their operational or financial relationships with the state.

**Individual Component Unit Disclosures**

**Discretely Presented Component Units:**

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

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

**Related 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.

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TEXAS DEPARTMENT OF INSURANCE (454)

**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 2002, the State of Texas adoption of GASB 34/35 required the restatement of the amount in fund balances and fund equity as shown below:

	General Revenue	Special Revenue Funds	Expendable Trust Fund	Agency Funds	Private Purpose Trust Funds	Totals
Fund Balance August 31, 2001	\$ 37,771,870.68	\$ 7,179,544.59	\$ 277,806,104.97	\$ 1,061,130,749.97	\$ 0.00	\$ 1,383,888,270.21
GASB 34/35 Fund Type Changes	0.00	0.00	(277,806,104.97)	(214,138,269.05)	491,944,374.02	0.00
Fund Balance 9-1-01, As Restated	<u>\$ 37,771,870.68</u>	<u>\$ 7,179,544.59</u>	<u>\$ 0.00</u>	<u>\$ 846,992,480.92</u>	<u>\$ 491,944,374.02</u>	<u>\$ 1,383,888,270.21</u>

	Component Units- Proprietary Funds
Fund Equity August 31, 2001	\$ 2,449,784.00
GASB 34/35 Fund Type Changes	0.00
Fund Equity 9-1-01, As Restated	<u>\$ 2,449,784.00</u>

**NOTE 20: DONOR-RESTRICTED ENDOWMENTS**

N/A

**NOTE 21: PLEDGED/NON-PLEDGED REVENUES AND DISCOUNTS AND ALLOWANCES**

N/A

**NOTE 22: MANAGEMENT DISCUSSION AND ANALYSIS**

N/A

**UNAUDITED**

**Texas Department of Insurance (454)**

**Exhibit A-1 - Combining Balance Sheet - All General and Consolidated Funds**

August 31, 2002

	General Revenue		Consolidated Accounts	
	General Revenue	Departmental Suspense	GR Account -Tx Department of Insurance Operating	Total
	(0001) U/F (0004)	(0900) U/F (0905)	(0036) U/F (0036)	(Ex I)
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash on Hand	\$ -	\$ -	\$ 685.00	\$ 685.00
Cash in Bank			25,000.00	25,000.00
Cash in State Treasury		1,527.29	46,249,831.57	46,251,358.86
Receivables:				
Federal			160,532.86	160,532.86
Accounts Receivable			1,985,096.18	1,985,096.18
Due From Other Agencies			4,051.00	4,051.00
Consumable Inventories			61,214.70	61,214.70
Total Current Assets	-	1,527.29	48,486,411.31	48,487,938.60
Total Assets	\$ -	\$ 1,527.29	\$ 48,486,411.31	\$ 48,487,938.60
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Current Liabilities:				
Payables:				
Accounts Payable	\$ -	\$ -	\$ 1,758,261.16	\$ 1,758,261.16
Payroll Payable			4,182,175.81	4,182,175.81
Due To Other Agencies			946,840.24	946,840.24
Total Current Liabilities	-	-	6,887,277.21	6,887,277.21
Total Liabilities	-	-	6,887,277.21	6,887,277.21
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>				
Fund Balances (Deficits):				
Reserved for:				
Encumbrances			154,818.62	154,818.62
Inventories			61,214.70	61,214.70
Imprest			25,685.00	25,685.00
Unreserved Designated for:				
Undesignated		1,527.29	41,357,415.78	41,358,943.07
Total Fund Balances	-	1,527.29	41,599,134.10	41,600,661.39
Total Liabilities and Fund Balances	\$ -	\$ 1,527.29	\$ 48,486,411.31	\$ 48,487,938.60

The accompanying notes to the financial statements are an integral part of this statement.

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**Texas Department of Insurance (454)**  
**Exhibit A-2 - Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – All General and Consolidated Funds**

For the Fiscal Year Ended August 31, 2002

	General Revenue		Consolidated Accounts	Total (Ex II)
	General Revenue (0001) U/F (0004)	Departmental Suspense (0900) U/F (0905)	GR Account-TX Department of Insurance Operating (0036) U/F (0036)	
<b>REVENUES</b>				
Federal Revenue	\$ 27,740.26	\$ -	\$ 905,824.26	\$ 933,564.52
Federal Pass-Through Revenue			91,036.00	91,036.00
Licenses, Fees & Permits		864.71	28,789,434.86	28,790,299.57
Sales of Goods and Services			66,387.45	66,387.45
Other			1,641,551.65	1,641,551.65
<b>Total Revenues</b>	<b>27,740.26</b>	<b>864.71</b>	<b>31,494,234.22</b>	<b>31,522,839.19</b>
<b>EXPENDITURES</b>				
Salaries and Wages			42,944,807.75	42,944,807.75
Payroll Related Costs			11,359,353.77	11,359,353.77
Professional Fees and Services			842,707.46	842,707.46
Travel			1,567,860.16	1,567,860.16
Materials and Supplies			2,727,447.15	2,727,447.15
Communication and Utilities			950,577.87	950,577.87
Repairs and Maintenance			816,937.29	816,937.29
Rentals & Leases			433,801.48	433,801.48
Printing and Reproduction			344,870.93	344,870.93
Claims and Judgments			2,539.00	2,539.00
Other Expenditures			4,057,131.77	4,057,131.77
Capital Outlay			531,539.27	531,539.27
<b>Total Expenditures/Expenses</b>	<b>-</b>	<b>-</b>	<b>66,579,573.90</b>	<b>66,579,573.90</b>
Excess (Deficiency) of Revenues Over Expenditures	<b>27,740.26</b>	<b>864.71</b>	<b>(35,085,339.68)</b>	<b>(35,056,734.71)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In			57,020,675.01	57,020,675.01
Transfers Out	(9,022.45)		(18,136,863.89)	(18,145,886.34)
Sale of Capital Assets		662.58	14,061.98	14,724.56
Legislative Transfers Out	(18,717.81)			(18,717.81)
Net Change in Reserve for Inventories			14,730.00	14,730.00
<b>Total Other Financing Sources and Uses</b>	<b>(27,740.26)</b>	<b>662.58</b>	<b>38,912,603.10</b>	<b>38,885,525.42</b>
<b>Net Change in Fund Balances/Net Assets</b>	<b>-</b>	<b>1,527.29</b>	<b>3,827,263.42</b>	<b>3,828,790.71</b>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>				
Fund Balances--Beginning	-	-	37,771,870.68	37,771,870.68
Restatements				-
Fund Balances, September 1, 2001, as Restated	-	-	37,771,870.68	37,771,870.68
Fund Balances--August 31, 2002	\$ -	\$ 1,527.29	\$ 41,599,134.10	\$ 41,600,661.39

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**Texas Department of Insurance (454)**  
**Exhibit I-1 - Combining Statement of Fiduciary Net Assets**  
**Private-Purpose Trust Funds**

August 31, 2002

	Private-Purpose Catastrophe Reserve Trust Fund (9999) U/F (0050)	Private-Purpose Estates/Securities in Trust (9999) U/F (2999)	Totals (Ex VI)
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents:			
Cash in Bank	\$ -	\$ 946.01	\$ 946.01
Short Term Investments	301,607,393.95	106,435,893.06	408,043,287.01
Other Current Assets		75,280,675.94	75,280,675.94
Total Current Assets	301,607,393.95	181,717,515.01	483,324,908.96
Total Assets	301,607,393.95	181,717,515.01	483,324,908.96
<b>LIABILITIES</b>			
Current Liabilities:			
Funds Held for Others		75,280,675.94	75,280,675.94
Total Current Liabilities	-	75,280,675.94	75,280,675.94
Total Liabilities	-	75,280,675.94	75,280,675.94
<b>NET ASSETS</b>			
Held in trust for:			
Individuals, Organizations, and Other Governments:			-
Expendable	301,607,393.95	106,436,839.07	408,044,233.02
Total Net Assets	\$ 301,607,393.95	\$ 106,436,839.07	\$ 408,044,233.02



**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit I-2 - Combining Statement of Changes in Fiduciary Net Assets**  
**Private-Purpose Trust Funds**

August 31, 2002

	Private-Purpose Catastrophe Reserve Trust Fund (9999) U/F (0050)	Private-Purpose Estates/Securities in Trust (9999) U/F (2999)	Total (Ex VII)
<b>ADDITIONS</b>			
Investment Income:			
From Investing Activities			
Interest and Investment Income	\$ 5,754,212.31	\$ 2,492,370.19	\$ 8,246,582.50
Total Investing Income	5,754,212.31	2,492,370.19	8,246,582.50
Less Investing Activities Expense			-
Net Income from Investing Activities	5,754,212.31	2,492,370.19	8,246,582.50
 Total Net Investment Income	 5,754,212.31	 2,492,370.19	 8,246,582.50
 Other Additions			
Other Revenue	19,104,549.24	26,934,252.74	46,038,801.98
Total Other Additions	19,104,549.24	26,934,252.74	46,038,801.98
 Total Additions	 24,858,761.55	 29,426,622.93	 54,285,384.48
 <b>DEDUCTIONS</b>			
Professional Fees and Services		4,082,000.00	4,082,000.00
Settlement of Claims		70,889,028.41	70,889,028.41
Other Expense	57,472.57	24,596.94	82,069.51
Transfers Out	1,000,000.00		1,000,000.00
Total Deductions	1,057,472.57	74,995,625.35	76,053,097.92
 <b>NET INCREASE (DECREASE)</b>	 23,801,288.98	 (45,569,002.42)	 (21,767,713.44)
 Net Assets- Beginning of the Year	 277,806,104.97	 152,005,841.49	 429,811,946.46
Restatements			-
Beginning of Year, As Restated	277,806,104.97	152,005,841.49	429,811,946.46
 Net Assets - End of the Year	 \$ 301,607,393.95	 \$ 106,436,839.07	 \$ 408,044,233.02

**UNAUDITED**

**Texas Department of Insurance (454)  
Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities  
Agency Funds**

August 31, 2002

	<b>Beginning Balance September 1, 2001</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance August 31, 2002</b>
<b>UNAPPROPRIATED RECEIPTS</b>				
<b><u>General Revenue Fund (0001) U/F (0003)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ -	\$ 17,026,220.68	\$ 17,026,220.68	\$ -
Total Assets	\$ -	\$ 17,026,220.68	\$ 17,026,220.68	\$ -
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ -	\$ 17,026,220.68	\$ 17,026,220.68	\$ -
Total Liabilities	\$ -	\$ 17,026,220.68	\$ 17,026,220.68	\$ -
<b><u>Departmental Suspense (0900) U/F (0900)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 144,358.28	\$ 19,764,189.85	\$ 19,908,548.13	\$ -
Total Assets	\$ 144,358.28	\$ 19,764,189.85	\$ 19,908,548.13	\$ -
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 144,358.28	\$ 19,764,189.85	\$ 19,908,548.13	\$ -
Total Liabilities	\$ 144,358.28	\$ 19,764,189.85	\$ 19,908,548.13	\$ -
<b><u>US Savings Bond Account (0901) U/F (0901)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 4,162.50	\$ 56,250.00	\$ 55,462.50	\$ 4,950.00
Total Assets	\$ 4,162.50	\$ 56,250.00	\$ 55,462.50	\$ 4,950.00
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 4,162.50	\$ 56,250.00	\$ 55,462.50	\$ 4,950.00
Total Liabilities	\$ 4,162.50	\$ 56,250.00	\$ 55,462.50	\$ 4,950.00
<b><u>LIFE/HLTH/ACC/CAS INS TR ACCT (921) U/F (921)</u></b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 316,088.00	\$ 316,088.00	\$ 316,088.00	\$ 316,088.00
Other Current Assets	845,393,687.38	963,752,583.25	845,393,687.38	963,752,583.25
Total Assets	\$ 845,709,775.38	\$ 964,068,671.25	\$ 845,709,775.38	\$ 964,068,671.25
<b>LIABILITIES</b>				
Current				
Funds Held for Others	845,709,775.38	964,068,671.25	845,709,775.38	964,068,671.25
Total Liabilities	\$ 845,709,775.38	\$ 964,068,671.25	\$ 845,709,775.38	\$ 964,068,671.25

The accompanying notes to the financial statements are an integral part of this statement.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit J-1 - Combining Statement of Changes in Assets and Liabilities**  
**Agency Funds**

August 31, 2002

	Beginning Balance September 1, 2001	Additions	Deductions	Ending Balance August 31, 2002
<b>UNCLAIMED DIVIDEND TRUST FUND (0923) U/F (0923)</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 1,134,184.76	\$ 1,181,361.24	\$ 1,821,899.12	\$ 493,646.88
Total Assets	<u>\$ 1,134,184.76</u>	<u>\$ 1,181,361.24</u>	<u>\$ 1,821,899.12</u>	<u>\$ 493,646.88</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 1,134,184.76	\$ 1,181,361.24	\$ 1,821,899.12	\$ 493,646.88
Total Liabilities	<u>\$ 1,134,184.76</u>	<u>\$ 1,181,361.24</u>	<u>\$ 1,821,899.12</u>	<u>\$ 493,646.88</u>
<b>Totals - All Agency Funds</b>				
<b>ASSETS</b>				
Current				
Cash in State Treasury	\$ 1,598,793.54	\$ 38,344,109.77	\$ 39,128,218.43	\$ 814,684.88
Other Current Assets	845,393,687.38	963,752,583.25	845,393,687.38	963,752,583.25
Total Assets	<u>\$ 846,992,480.92</u>	<u>\$ 1,002,096,693.02</u>	<u>\$ 884,521,905.81</u>	<u>\$ 964,567,268.13</u>
<b>LIABILITIES</b>				
Current				
Funds Held for Others	\$ 846,992,480.92	\$ 1,002,096,693.02	\$ 884,521,905.81	\$ 964,567,268.13
Total Liabilities	<u>\$ 846,992,480.92</u>	<u>\$ 1,002,096,693.02</u>	<u>\$ 884,521,905.81</u>	<u>\$ 964,567,268.13</u>

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**Texas Department of Insurance (454)**  
**Exhibit L-1 - Combining Statement of Net Assets**  
**Discretely Presented Proprietary Component Units**

August 31, 2002

	Surplus Lines Stamping Office of Texas (9999) <u>U/F (3999)</u>	Texas Health Reinsurance System (9999) <u>U/F (3999)</u>	Texas Health Insurance Risk Pool (9999) <u>U/F (3999)</u>	<u>Totals (Ex III)</u>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ 2,483,683.00	\$ 641,358.00	\$ 2,143,942.00	\$ 5,268,983.00
Cash Equivalents			1,848,796.00	1,848,796.00
Short Term Investments			39,046,633.00	39,046,633.00
Receivables:				
Interest and Dividends	26,331.00			26,331.00
Accounts Receivable	643,777.00		1,989,341.00	2,633,118.00
Taxes		21,268.00		21,268.00
Other		4,821,735.00		4,821,735.00
Total Current Assets	<u>3,153,791.00</u>	<u>5,484,361.00</u>	<u>45,028,712.00</u>	<u>53,666,864.00</u>
Non-Current Assets:				
Capital Assets:				
Depreciable:				
Furniture and Equipment	2,319,527.00		21,285.00	2,340,812.00
Accumulated Depreciation	(906,005.00)		(11,755.00)	(917,760.00)
Other Non-Current Assets			1,338.00	1,338.00
Total Non-Current Assets	<u>1,413,522.00</u>	<u>-</u>	<u>10,868.00</u>	<u>1,424,390.00</u>
Total Assets	<u>4,567,313.00</u>	<u>5,484,361.00</u>	<u>45,039,580.00</u>	<u>55,091,254.00</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables:				
Accounts Payable	103,775.00	79,727.00	748,737.00	932,239.00
Deferred Revenue			29,390,843.00	29,390,843.00
Other Liabilities		4,419,406.00	3,220,000.00	7,639,406.00
Notes and Loans Payable		500,000.00		500,000.00
Total Current Liabilities	<u>103,775.00</u>	<u>4,999,133.00</u>	<u>33,359,580.00</u>	<u>38,462,488.00</u>
Non-Current Liabilities:				
Other Liabilities			11,680,000.00	11,680,000.00
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>11,680,000.00</u>	<u>11,680,000.00</u>
Total Liabilities	<u>103,775.00</u>	<u>4,999,133.00</u>	<u>45,039,580.00</u>	<u>50,142,488.00</u>
<b>NET ASSETS</b>				
Unrestricted	4,463,538.00	485,228.00		4,948,766.00
<b>Total Net Assets</b>	<u>\$ 4,463,538.00</u>	<u>\$ 485,228.00</u>	<u>\$ -</u>	<u>\$ 4,948,766.00</u>

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit L-2 - Combining Statement of Revenues, Expenses,**  
**and Changes in Fund Equity –**  
**Discretely Presented Proprietary Component Units**

For the Fiscal Year Ended August 31, 2002

	<b>Surplus Lines Stamping Office of Texas (9999) U/F (3999)</b>	<b>Texas Health Reinsurance System (9999) U/F (3999)</b>	<b>Texas Health Insurance Risk Pool (9999) U/F (3999)</b>	<b>Totals (Ex IV)</b>
<b>OPERATING REVENUES:</b>				
Sales of Goods and Services:				
Other Sales of Goods and Services	\$ 3,928,459.00	\$ -	\$ -	\$ 3,928,459.00
Premium Revenue		1,155,616.00	61,857,080.00	63,012,696.00
Interest and Investment Income	58,142.00	22,124.00	1,967,730.00	2,047,996.00
Other Operating Revenues	(471.00)	5,297,719.00	34,399,570.00	39,696,818.00
<b>Total Operating Revenues</b>	<b>3,986,130.00</b>	<b>6,475,459.00</b>	<b>98,224,380.00</b>	<b>108,685,969.00</b>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	956,527.00		153,309.00	1,109,836.00
Payroll Related Costs	271,247.00			271,247.00
Professional Fees and Services	112,943.00		8,313,602.00	8,426,545.00
Travel	2,702.00		1,977.00	4,679.00
Materials and Supplies	95,537.00		48,663.00	144,200.00
Communication and Utilities	9,337.00			9,337.00
Repairs and Maintenance	13,169.00			13,169.00
Rentals and Leases	282,656.00		40,406.00	323,062.00
Printing and Reproduction	5,405.00			5,405.00
Depreciation and Amortization	130,817.00		4,344.00	135,161.00
Other Operating Expenses	106,959.00	5,975,308.00	89,662,079.00	95,744,346.00
<b>Total Operating Expenses</b>	<b>1,987,299.00</b>	<b>5,975,308.00</b>	<b>98,224,380.00</b>	<b>106,186,987.00</b>
Operating Income (Loss)	1,998,831.00	500,151.00	-	2,498,982.00
Change in Net Assets	1,998,831.00	500,151.00	-	2,498,982.00
Total Net Assets, September 1, 2001	2,464,707.00	(14,923.00)		2,449,784.00
Restatements				-
Total Net Assets, September 1, 2001, as Restated	2,464,707.00	(14,923.00)	-	2,449,784.00
<b>Total Net Assets, August 31, 2002</b>	<b>\$ 4,463,538.00</b>	<b>\$ 485,228.00</b>	<b>\$ -</b>	<b>\$ 4,948,766.00</b>

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit L-3 - Combining Statement of Cash Flows**  
**Discretely Presented Proprietary Component Units**

For the Fiscal Year Ended August 31, 2002

	Surplus Lines Stamping Office of Texas (9999) U/F (3999)	Texas Health Reinsurance System (9999) U/F (3999)	Texas Health Insurance Risk Pool (9999) U/F (3999)	Totals (Ex V)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 3,662,798.00	\$ 3,833,199.00	\$ 61,881,679.00	\$ 69,377,676.00
Proceeds from Loan Programs		500,000.00		500,000.00
Proceeds from Other Revenues	57,671.00	24,734.00	28,751,594.00	28,833,999.00
Payments to Suppliers for Goods and Services	(734,363.00)		(96,221,334.00)	(96,955,697.00)
Payments to Employees	(1,155,818.00)			(1,155,818.00)
Payments for Other Expenses		(4,429,545.00)		(4,429,545.00)
Net Cash Provided by Operating Activities	<u>1,830,288.00</u>	<u>(71,612.00)</u>	<u>(5,588,061.00)</u>	<u>(3,829,385.00)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Payments for Other Uses			(873.00)	(873.00)
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>(873.00)</u>	<u>(873.00)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from the Sale of Capital Assets	2,169.00			2,169.00
Payments for Additions to Capital Assets	(621,288.00)			(621,288.00)
Net Cash Provided by Capital and Related Financing Activities	<u>(619,119.00)</u>	<u>-</u>	<u>-</u>	<u>(619,119.00)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from Sales of Investments	976,080.00		199,064,000.00	200,040,080.00
Proceeds from Interest and Investment Income			(1,649,504.00)	(1,649,504.00)
Payments to Acquire Investments			(189,919,863.00)	(189,919,863.00)
Net Cash Provided by Investing Activities	<u>976,080.00</u>	<u>-</u>	<u>7,494,633.00</u>	<u>8,470,713.00</u>
Net (Decrease) in Cash and Cash Equivalents	2,187,249.00	(71,612.00)	1,905,699.00	4,021,336.00
Cash and Cash Equivalents--September 1, 2001	296,434.00	712,970.00	2,087,039.00	3,096,443.00
Restatement to Beginning Cash & Cash Equivalents				-
Cash and Cash Equivalents--August 31, 2002	<u>\$ 2,483,683.00</u>	<u>\$ 641,358.00</u>	<u>\$ 3,992,738.00</u>	<u>\$ 7,117,779.00</u>

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit L-3 - Combining Statement of Cash Flows**  
**Discretely Presented Proprietary Component Units (con't)**

For the Fiscal Year Ended August 31, 2002

	Surplus Lines Stamping Office of Texas (9999) U/F (3999)	Texas Health Reinsurance System (9999) U/F (3999)	Texas Health Insurance Risk Pool (9999) U/F (3999)	Totals (Ex V)
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>				
<b>Operating Income (Loss)</b>	\$ 1,998,831.00	\$ 500,151.00	\$ -	\$ 2,498,982.00
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>				
Amortization and Depreciation	130,817.00	-	4,344.00	135,161.00
Operating Income and Cash Flow Categories:				
Classification Differences				
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	(265,664.00)	(2,615,687.00)	(22,594.00)	(2,903,945.00)
(Increase) Decrease in Prepaid Expenses	22,056.00			22,056.00
(Increase) Decrease in Loans & Contracts		500,000.00		500,000.00
(Increase) Decrease in Other Assets		2,612.00		2,612.00
Increase (Decrease) in Payables	(55,752.00)	1,283,658.00	1,998,703.00	3,226,609.00
Increase (Decrease) in Deferred Income			(7,568,514.00)	(7,568,514.00)
Increase (Decrease) in Other Liabilities		257,654.00		257,654.00
Total Adjustments	(168,543.00)	(571,763.00)	(5,588,061.00)	(6,328,367.00)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,830,288.00</b>	<b>\$ (71,612.00)</b>	<b>\$ (5,588,061.00)</b>	<b>\$ (3,829,385.00)</b>
<b>Non Cash Transactions</b>				
Net Increase (Decrease) in Fair Value of Investments				\$ -

Note A - These Component Units have a fiscal year end of December 31, 2001. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Schedule 1A - Schedule Of Expenditures Of Federal Awards**

For the fiscal year ended August 31, 2002

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		\$ -	\$ -	\$ 933,564.52
Pass-Through From:						
Texas Department on Aging						
Health Care Financing Research, Demonstrations, and Evaluations	93.779		340	91,036.00		
Total U.S. Dept. of Health and Human Svcs				<u>91,036.00</u>		<u>933,564.52</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<u>\$ 91,036.00</u>		<u>\$ 933,564.52</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		
\$ 933,564.52		\$ -	\$ -	\$ 933,564.52	\$ 933,564.52
91,036.00				91,036.00	91,036.00
1,024,600.52				1,024,600.52	1,024,600.52
\$ 1,024,600.52				\$ 1,024,600.52	\$ 1,024,600.52

**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/Statement of Activities - Governmental Fund Types (Exh. II):

Federal Revenue	\$ 933,564.52
Federal Grant Pass-Through Revenue	<u>91,036.00</u>
 Total Pass-Through and Expenditures per Federal Schedule	  <u>\$ 1,024,600.52</u>

UNAUDITED

**Texas Department of Insurance (454)**  
**Schedule 6 - Summary Of Revenues/Transfers In**

For the fiscal year ended August 31, 2002

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

**REVENUES FUND 0036**

	<b>AMOUNT</b>
<b>FEDERAL FUNDS</b>	
Fund 0036 - State Planning Grant - Federal Receipts	\$ 905,824.26
Fund 0036 - Department of Aging Contract - Federal Pass-Through	91,036.00
<b>TOTAL FEDERAL FUNDS</b>	<b>996,860.26</b>
<b>LICENSES, FEES, AND PERMITS</b>	
Fund 0036 - Catastrophic Pool Inspection Fees	17,397.00
Fund 0036 - License Fee - Title Insurance Companies	201,407.50
Fund 0036 - Domestic Filing Fees - Life	211,933.60
Fund 0036 - Foreign Filing Fees - Life	81,264.08
Fund 0036 - Domestic Filing Fees - Property and Casualty	183,775.29
Fund 0036 - Foreign Filing Fees - Property and Casualty	112,814.00
Fund 0036 - License Fees - Insurance Adjusters and Agents	11,426,543.29
Fund 0036 - Agents Certification and Clearance Letters	1,050,651.52
Fund 0036 - Filing Fees - Third Party Administrators	102,621.00
Fund 0036 - Filing Fees - Risk Retention & Purchasing Groups	14,361.00
Fund 0036 - Examination Fees - Salaries and Travel Expense	2,686,505.85
Fund 0036 - Examination Q of C Sal/Travl	54,572.56
Fund 0036 - Examination Fees - Overhead Assessment	9,620,456.21
Fund 0036 - Filing Fees - Policy Approval	586,234.67
Fund 0036 - Filing Fees - Health Maintenance Organizations	153,900.00
Fund 0036 - Filing Fees - Insurance Premium Finance	64,522.00
Fund 0036 - Examination and Assessment Fees - Insurance Premium Finance	156,311.36
Fund 0036 - Amusement Ride Safety Inspections	58,845.00
Fund 0036 - State Fire Marshal Fees	1,889,277.51
Fund 0036 - Miscellaneous Certification Fees	8,755.80
Fund 0036 - Administrative Fees	107,285.62
<b>TOTAL LICENSES, FEES, AND PERMITS</b>	<b>28,789,434.86</b>
<b>SALES OF GOODS AND SERVICES</b>	
Fund 0036 - Sale of Lists, Bulletins, Rating Data, etc.	51,917.40
Fund 0036 - Sale of Computer Lists, Labels or Tapes	11,670.05
Fund 0036 - Miscellaneous Other Sales	2,800.00
<b>TOTAL SALES OF GOODS AND SERVICES</b>	<b>66,387.45</b>
<b>OTHER REVENUES</b>	
Fund 0036 - Warrants Voided By Statute of Limitations	7,825.47
Fund 0036 - Reimbursements - Third Party	1,360,290.66
Fund 0036 - Reimbursement of Conservation Expenses	274,286.33
Fund 0036 - Other Miscellaneous Governmental Revenue	(850.81)
<b>TOTAL OTHER REVENUES</b>	<b>1,641,551.65</b>
<b>TOTAL FUND 0036 REVENUES</b>	<b>\$ 31,494,234.22</b>

The accompanying notes to the financial statements are an integral part of this statement.

UNAUDITED

**Texas Department of Insurance (454)**  
**Schedule 6 - Summary Of Revenues/Transfers In (con't)**

For the fiscal year ended August 31, 2002

	<b>AMOUNT</b>
<b>GENERAL REVENUE COLLECTIONS</b>	
<b>FEDERAL FUNDS</b>	
Fund 0001 - State Planning Grant - Federal Receipts	\$ 27,740.26
<b>TOTAL FEDERAL FUNDS</b>	27,740.26
<b>LICENSES, FEES, AND PERMITS</b>	
Fund 0900 - License Fees - Insurance Adjusters and Agents	864.71
<b>TOTAL LICENSES, FEES, AND PERMITS</b>	864.71
<b>TOTAL GENERAL REVENUE COLLECTIONS</b>	28,604.97
<b>AGENCY FUNDS COLLECTIONS</b>	
Fund 0001 - State Sales Tax/Discounts	3,423.67
Fund 0001 - Viatical Settlement Registration Fees	23,520.00
Fund 0001 - Utilization Review Fees	84,780.00
Fund 0001 - Filing Fees - Continuing Care Facilities	19,060.00
Fund 0001 - Returned Check Fees	875.00
Fund 0001 - Retaliatory Fees	255.00
Fund 0001 - Interest on Local Deposits	64.61
Fund 0923 - Interest Earned Unclaimed Dividend Trust Account Fund	23,583.33
Fund 0001 - Judgments (Secured by Court Action)	7,480.40
Fund 0001 - Penalty In Lieu of Suspension/Cancellation	16,589,427.56
Fund 0001 - Other Miscellaneous Governmental Revenue	1,563.13
Fund 0882 - City/MTA Sales Tax Trust	1,081.22
Fund 0001 - SFMO-Fireworks, Education Safety	63,270.00
Fund 0001 - Specialty Insurance Agents Lic	220,972.00
<b>TOTAL AGENCY FUNDS COLLECTIONS</b>	17,039,355.92
<b>TOTAL FUNDS 0036 and 0001 REVENUES/AGENCY FUND COLLECTIONS - TDI</b>	48,562,195.11
<b><u>TRANSFERS IN</u></b>	
<b>From Comptroller of Public Accounts:</b>	
Fund 0036 - Motor Vehicle Maintenance Tax	6,542,680.32
Fund 0036 - Fire and Allied Lines Maintenance Tax	22,960,750.05
Fund 0036 - Workers' Compensation Maintenance Tax	2,878,976.89
Fund 0036 - Casualty Maintenance Tax	7,176,630.00
Fund 0036 - Title Maintenance Fee	1,168,345.99
Fund 0036 - Life/Accident and Health Maintenance Tax	7,322,891.58
Fund 0036 - Third Party Administrator Maintenance Tax	1,167,648.70
Fund 0036 - Health Maintenance Organization Maintenance Tax	3,463,369.21
Fund 0036 - Prepaid Legal Services Maintenance Tax	732.92
Fund 0036 - Domestic Valuation Fees - Life	3,103,117.57
Fund 0036 - Annual Statement Filing Fees	235,531.78
<b>TOTAL REVENUES TRANSFERRED FROM COMPTROLLER OF PUBLIC ACCOUNTS</b>	56,020,675.01
<b>From Other Sources:</b>	
Fund 0036 - From Catastrophe Reserve Trust Fund	1,000,000.00
Fund 0036 - From Sale of Fixed Assets	14,061.98
Fund 0900 - From Sale of Fixed Assets	662.58
<b>TOTAL REVENUES TRANSFERRED FROM OTHER SOURCES</b>	1,014,724.56
<b>TOTAL REVENUES FROM TRANSFERS IN</b>	57,035,399.57
<b>TOTAL REVENUES/TRANSFERS IN</b>	\$ 105,597,594.68

The accompanying notes to the financial statements are an integral part of this statement.

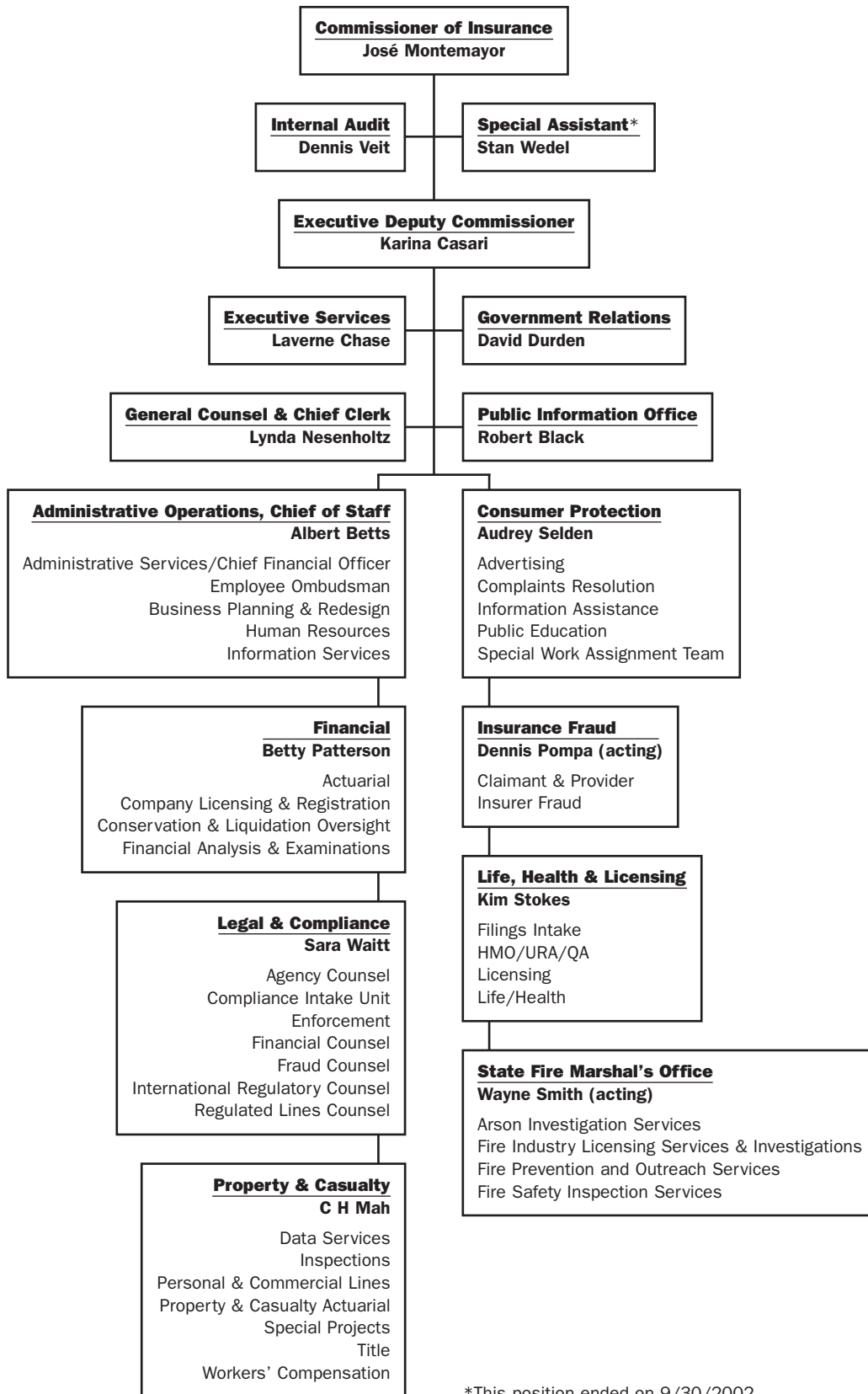
**UNAUDITED**

**Texas Department of Insurance (454)**  
**Schedule 6A - Comparative Statement Of Revenues**

1993 - 2002

<u>FISCAL YEAR</u>	<u>TAXES COLLECTED</u>	<u>LICENSES &amp; FEES</u>	<u>OTHER REVENUES</u>	<u>TOTAL</u>
1993	\$ 461,184,296.00	\$ 28,953,773.00	\$ 3,366,426.00	\$ 493,504,495.00
1994*	101,204,844.39	23,200,415.00	6,118,120.00	130,523,379.39
1995*	80,478,984.00	21,523,266.00	1,779,561.00	103,781,811.00
1996*	55,714,235.25	27,141,096.62	2,633,586.76	85,488,918.63
1997*	65,420,868.86	22,144,589.76	6,484,140.23	94,049,598.85
1998*	43,324,253.00	27,631,504.00	4,362,698.70	75,318,455.70
1999*	43,473,181.00	25,142,085.00	5,539,619.00	74,154,885.00
2000*	42,203,384.00	29,035,734.00	1,548,859.00	72,787,977.00
2001*	45,486,356.59	30,074,415.75	3,511,089.48	79,071,861.82
2002*	52,686,530.55	32,541,680.92	20,369,383.21	105,597,594.68

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.



\*This position ended on 9/30/2002.