

# **2008 Annual Report**

**Texas Department of Insurance**



**Texas Department of Insurance**

Office of the Commissioner, Mail Code 113-1C

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November 20, 2008

Honorable Rick Perry, *Governor*  
Honorable Susan Combs, *Texas Comptroller*  
John O'Brien, *Director, Legislative Budget Board*  
John Keel, CPA, *State Auditor*

Lady and Gentlemen:

We are pleased to submit the *Annual Financial Report* of the Texas Department of Insurance for the year ended August 31, 2008, 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 comply with all the requirements in this statement. 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,

A handwritten signature in black ink that reads "Mike Geeslin". The signature is written in a cursive style with a long horizontal stroke at the end.

Mike Geeslin  
Commissioner of Insurance

**TEXAS DEPARTMENT OF INSURANCE  
ANNUAL FINANCIAL REPORT  
FISCAL YEAR 2008**

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**UNAUDITED**

**Texas Department of Insurance (454)**

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

August 31, 2008

	<u>Governmental Fund Types</u>		<u>Governmental Funds Total</u>
	<u>General Funds (Ex A-1)</u>	<u>Special Revenue Funds (9999) U/F(1999)</u>	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents (Note 3)			
On Hand	\$ 685.00	\$ -	\$ 685.00
In Bank	50,000.00	55,998.36	105,998.36
Legislative Appropriations	102,614.61	-	102,614.61
In State Treasury	167,881,709.87	-	167,881,709.87
Cash Equivalents	-	7,862,674.25	7,862,674.25
Receivables from:			
Accounts Receivable	1,561,976.79	103,208.90	1,665,185.69
Interfund Receivable (Note 8)	90,513.79	-	90,513.79
Due From Other Agencies	30,832.86	-	30,832.86
Consumable Inventories	128,715.22	-	128,715.22
Total Current Assets	<u>169,847,048.14</u>	<u>8,021,881.51</u>	<u>177,868,929.65</u>
Capital Assets (Note 2):			
Depreciable			
Furniture and Equipment			
Less Accumulated Depreciation			
Vehicle, Boats, and Aircraft			
Less Accumulated Depreciation			
Other Capital Assets			
Less Accumulated Depreciation			
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 169,847,048.14</u>	<u>\$ 8,021,881.51</u>	<u>\$ 177,868,929.65</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Current Liabilities:			
Payables from:			
Accounts	\$ 3,457,211.63	\$ 22,728.54	\$ 3,479,940.17
Payroll	7,784,468.90	-	7,784,468.90
Interfund Payable (Note 8)	90,513.79	-	90,513.79
Due to Other Agencies	9,781,346.06	-	9,781,346.06
Deferred Revenue	36,123.53	-	36,123.53
Claims and Judgments (Note 5)	-	-	-
Employees Compensable Leave (Note 5)	-	-	-
Total Current Liabilities	<u>21,149,663.91</u>	<u>22,728.54</u>	<u>21,172,392.45</u>
Non-Current Liabilities:			
Claims and Judgments (Note 5)	-	-	-
Employees Compensable Leave (Note 5)	-	-	-
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>21,149,663.91</u>	<u>22,728.54</u>	<u>21,172,392.45</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
			105,998.36
			102,614.61
			167,881,709.87
			7,862,674.25
			1,665,185.69
			90,513.79
			30,832.86
			128,715.22
-	-	-	177,868,929.65
8,128,019.12			8,128,019.12
(7,495,511.36)			(7,495,511.36)
1,146,018.75			1,146,018.75
(652,460.75)			(652,460.75)
22,399.30			22,399.30
(12,675.98)			(12,675.98)
1,135,789.08	-	-	1,135,789.08
\$ 1,135,789.08	\$ -	\$ -	\$ 179,004,718.73
\$ -	\$ -	\$ -	\$ 3,479,940.17
			7,784,468.90
			90,513.79
			9,781,346.06
			36,123.53
	514,466.55		514,466.55
	4,765,563.01		4,765,563.01
-	5,280,029.56	-	26,452,422.01
	12,894,118.09		12,894,118.09
	3,249,764.47		3,249,764.47
-	16,143,882.56	-	16,143,882.56
-	21,423,912.12	-	42,596,304.57

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, 2008

	<u>Governmental Fund Types</u>		<u>Governmental Funds Total</u>
	<u>General Funds (Ex A-1)</u>	<u>Special Revenue Funds (9999) U/F(1999)</u>	
<b>FUND FINANCIAL STATEMENT</b>			
Fund Balances (Deficits):			
Reserved for:			
Encumbrances	\$ 1,236,654.29	\$ -	\$ 1,236,654.29
Inventories	128,715.22	-	128,715.22
Imprest	50,685.00	-	50,685.00
Unreserved Designated for:			
Undesignated	<u>147,281,329.72</u>	<u>7,999,152.97</u>	<u>155,280,482.69</u>
Total Fund Balances	<u>148,697,384.23</u>	<u>7,999,152.97</u>	<u>156,696,537.20</u>
Total Liabilities and Fund Balances	<u>\$ 169,847,048.14</u>	<u>\$ 8,021,881.51</u>	<u>\$ 177,868,929.65</u>

**GOVERNMENT-WIDE STATEMENT-NET ASSETS**

Net Assets:

    Invested in Capital Assets, Net of Related Debt

    Unrestricted

Total Net Assets

**UNAUDITED**

<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Net Assets</b>
			\$ 1,236,654.29
			128,715.22
			50,685.00
			155,280,482.69
			156,696,537.20
\$ 1,135,789.08	\$ - (21,423,912.12)	\$ -	\$ 1,135,789.08 (21,423,912.12)
\$ 1,135,789.08	\$ (21,423,912.12)	\$ -	\$ 136,408,414.16

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, 2008

	General Funds (Ex A-2)	Special Revenue Funds (9999) U/F(1999)	Governmental Funds Total
<b>REVENUES</b>			
Original Appropriations	\$ 230,926.00	\$ -	\$ 230,926.00
Additional Appropriations	41,929.40	-	41,929.40
Taxes	1,310,361.04	-	1,310,361.04
Federal Revenue (Sch 1A)	2,792,817.66	-	2,792,817.66
Federal Pass-Through Revenue (Sch 1A)	89,232.86	-	89,232.86
Licenses, Fees & Permits	34,476,051.02	-	34,476,051.02
Sales of Goods and Services	11,541.35	-	11,541.35
Interest and Other Investment Income	-	265,932.94	265,932.94
Other	6,733,824.83	685,034.33	7,418,859.16
<b>Total Revenues</b>	<b>45,686,684.16</b>	<b>950,967.27</b>	<b>46,637,651.43</b>
<b>EXPENDITURES</b>			
Salaries and Wages	72,404,537.88	649,610.29	73,054,148.17
Payroll Related Costs	20,817,005.25	133,606.16	20,950,611.41
Professional Fees and Services	3,152,488.64	102,527.07	3,255,015.71
Travel	2,229,192.75	9,352.97	2,238,545.72
Materials and Supplies	3,140,501.85	635.64	3,141,137.49
Communication and Utilities	1,631,642.75	4,202.46	1,635,845.21
Repairs and Maintenance	719,009.07	2,665.08	721,674.15
Rentals & Leases	3,494,040.68	-	3,494,040.68
Printing and Reproduction	270,861.20	-	270,861.20
Claims and Judgments	4,446,160.14	-	4,446,160.14
Intergovernmental Payments	265,000.00	-	265,000.00
Public Assistance Payments	10,000.00	-	10,000.00
Other Expenditures	3,991,512.06	455,762.27	4,447,274.33
Capital Outlay	213,683.30	-	213,683.30
Depreciation Expense	-	-	-
<b>Total Expenditures/Expenses</b>	<b>116,785,635.57</b>	<b>1,358,361.94</b>	<b>118,143,997.51</b>
Excess (Deficiency) of Revenues			
Over Expenditures	(71,098,951.41)	(407,394.67)	(71,506,346.08)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	153,668,665.61	-	153,668,665.61
Transfers Out	(83,485,779.65)	-	(83,485,779.65)
Sale of Capital Assets	30,285.00	-	30,285.00
Insurance Recovery	1,400.00	-	1,400.00
Legislative Transfers Out (Note 8)	216,028.45	-	216,028.45
Appropriations Lapsed	(55,803.40)	-	(55,803.40)
Gain (Loss) on Sale of Capital Assets	-	-	-
<b>Total Other Financing Sources and Uses</b>	<b>70,374,796.01</b>	<b>-</b>	<b>70,374,796.01</b>
<b>Net Change in Fund Balances/Net Assets</b>	<b>(724,155.40)</b>	<b>(407,394.67)</b>	<b>(1,131,550.07)</b>

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

**UNAUDITED**

<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Activities</b>
\$ -	\$ -	\$ -	\$ 230,926.00
			41,929.40
			1,310,361.04
			2,792,817.66
			89,232.86
			34,476,051.02
			11,541.35
			265,932.94
			<u>7,418,859.16</u>
-	-	-	<u>46,637,651.43</u>
-	364,016.01		73,418,164.18
-	-		20,950,611.41
-	-		3,255,015.71
-	-		2,238,545.72
-	-		3,141,137.49
-	-		1,635,845.21
-	-		721,674.15
-	-		3,494,040.68
-	-		270,861.20
-	938,930.47		5,385,090.61
-	-		265,000.00
-	-		10,000.00
-	-		4,447,274.33
(213,683.30)	-		-
<u>592,547.64</u>	<u>-</u>		<u>592,547.64</u>
<u>378,864.34</u>	<u>1,302,946.48</u>	<u>-</u>	<u>119,825,808.33</u>
<u>(378,864.34)</u>	<u>(1,302,946.48)</u>	<u>-</u>	<u>(73,188,156.90)</u>
-	-		153,668,665.61
-	-		(83,485,779.65)
(30,285.00)	-		-
-	-		1,400.00
-	-		216,028.45
-	-		(55,803.40)
<u>(1,624.25)</u>	<u>-</u>		<u>(1,624.25)</u>
<u>(31,909.25)</u>	<u>-</u>	<u>-</u>	<u>70,342,886.76</u>
<u>(410,773.59)</u>	<u>(1,302,946.48)</u>	<u>-</u>	<u>(2,845,270.14)</u>

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

UNAUDITED

**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, 2008

	<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	\$ 149,307,661.32	\$ 8,406,547.64	\$ 157,714,208.96
Restatements (Note 18)	113,878.31	-	113,878.31
Fund Balances, September 1, 2007, as Restated	149,421,539.63	8,406,547.64	157,828,087.27
Fund Balances--August 31, 2008	\$ 148,697,384.23	\$ 7,999,152.97	\$ 156,696,537.20
 <b>GOVERNMENT-WIDE STATEMENT-NET ASSETS</b>			
Net Assets/Change in Net Assets			\$ 156,696,537.20
Net Assets--Beginning			
Restatements (Note 18)			
Net Assets, September 1, 2007, as Restated			
Net Assets--August 31, 2008			\$ 156,696,537.20

**UNAUDITED**

<b>Capital Assets Adjustments</b>	<b>Long-Term Liabilities Adjustments</b>	<b>Other Adjustments</b>	<b>Statement of Activities</b>
\$ 1,586,562.67	\$ (20,120,965.64)	\$ -	\$ 139,179,805.99
(40,000.00)	-	-	73,878.31
<u>1,546,562.67</u>	<u>(20,120,965.64)</u>	<u>-</u>	<u>139,253,684.30</u>
<u>\$ 1,135,789.08</u>	<u>\$ (21,423,912.12)</u>	<u>\$ -</u>	<u>\$ 136,408,414.16</u>
<u>\$ (410,773.59)</u>	<u>\$ (1,302,946.48)</u>	<u>\$ -</u>	<u>\$ 154,982,817.13</u>
\$ 1,586,562.67	\$ (20,120,965.64)	\$ -	(18,534,402.97)
(40,000.00)	-	-	(40,000.00)
<u>1,546,562.67</u>	<u>(20,120,965.64)</u>	<u>-</u>	<u>(18,574,402.97)</u>
<u>\$ 1,135,789.08</u>	<u>\$ (21,423,912.12)</u>	<u>\$ -</u>	<u>\$ 136,408,414.16</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 III - Combined Statement of Net Assets**  
**Proprietary Funds**

August 31, 2008

	<b>Total Proprietary Component Units</b> (Exhibit L-1)
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents:	
Cash in Bank (Note 3)	\$ 3,355,808.00
Cash Equivalents (Note 3)	12,275,114.00
Short Term Investments (Note 3)	87,514,585.00
Receivables from:	
Accounts Receivable	1,727,636.00
Other	41,113.00
Total Current Assets	104,914,256.00
Non-Current Assets:	
Capital Assets: (Note 2)	
Depreciable:	
Furniture and Equipment	3,296,723.00
Less Accumulated Depreciation	(2,904,840.00)
Other Non-Current Assets	23,928.00
Total Non-Current Assets	415,811.00
Total Assets	105,330,067.00
<b>LIABILITIES</b>	
Current Liabilities:	
Payables from:	
Accounts	4,579,248.00
Deferred Revenue	51,741,204.00
Other Liabilities	14,611,288.00
Total Current Liabilities	70,931,740.00
Non-Current Liabilities:	
Other Liabilities	23,250,000.00
Total Non-Current Liabilities	23,250,000.00
Total Liabilities	94,181,740.00
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	382,698.00
Unrestricted	10,765,629.00
<b>Total Net Assets</b>	<b>\$ 11,148,327.00</b>

Note A - These Component Units have a fiscal year end of December 31, 2007. 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, 2008

	<b>Total Proprietary Component Units (Exhibit L-2)</b>
<b>OPERATING REVENUES:</b>	
Sales of Goods and Services:	
Other Sales of Goods and Services	\$ 3,298,461.00
Premium Revenue	182,650,610.00
Interest and Investment Income	3,961,870.00
Federal Revenue	4,878,973.00
Other Operating Revenues	<u>62,849,578.00</u>
Total Operating Revenues	<u>257,639,492.00</u>
<b>OPERATING EXPENSES:</b>	
Salaries and Wages	1,483,763.00
Payroll Related Costs	435,169.00
Professional Fees and Services	13,596,219.00
Travel	10,776.00
Materials and Supplies	56,555.00
Communication and Utilities	30,684.00
Repairs and Maintenance	85,620.00
Rentals and Leases	275,321.00
Printing and Reproduction	11,102.00
Depreciation and Amortization	265,545.00
Other Operating Expenses	<u>240,644,552.00</u>
Total Operating Expenses	<u>256,895,306.00</u>
Operating Income (Loss)	<u>744,186.00</u>
Change in Net Assets	<u>744,186.00</u>
Total Net Assets, September 1, 2007	10,404,141.00
Restatements	-
Total Net Assets, September 1, 2007, as Restated	<u>10,404,141.00</u>
Total Net Assets, August 31, 2008	<u><u>\$ 11,148,327.00</u></u>

Note A - These Component Units have a fiscal year end of December 31, 2007. 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, 2008

	<b>Private- Purpose Trust Funds</b> (Exhibit I-1)	<b>Agency Funds</b> (Exhibit J-1)	<b>Totals</b>
<b>ASSETS</b>			
Cash and Cash Equivalents (Note 3)			
Cash in Bank	\$ 622,449.88	\$ -	\$ 622,449.88
Cash in State Treasury	629,446.93	4,343,108.39	4,972,555.32
Cash Equivalents	569,331,836.13	-	569,331,836.13
Accounts Receivable	-	204,194.33	204,194.33
Other Assets	76,469,078.54	1,772,357,289.30	1,848,826,367.84
Total Assets	<u>647,052,811.48</u>	<u>1,776,904,592.02</u>	<u>2,423,957,403.50</u>
<b>LIABILITIES</b>			
Accounts Payable	-	-	-
Due to Other Agencies	-	204,194.33	204,194.33
Funds Held for Others	76,469,078.54	1,776,700,397.69	1,853,169,476.23
Total Liabilities	<u>76,469,078.54</u>	<u>1,776,904,592.02</u>	<u>1,853,373,670.56</u>
<b>NET ASSETS</b>			
Held in trust for:			
Individuals, Organizations, and Other Governments	570,583,732.94	-	570,583,732.94
Total Net Assets	<u>\$ 570,583,732.94</u>	<u>\$ -</u>	<u>\$ 570,583,732.94</u>

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

**UNAUDITED**

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

August 31, 2008

	<b>Private- Purpose Trust (Exhibit I-2)</b>	<b>Totals</b>
<b>ADDITIONS</b>		
Investment Income		
From Investing Activities:		
Interest and Investment Income	\$ 19,390,262.10	\$ 19,390,262.10
Total Investing Income	19,390,262.10	19,390,262.10
Less Investing Activities Expense	-	-
Net Income from Investing Activities	19,390,262.10	19,390,262.10
 Total Net Investment Income	 19,390,262.10	 19,390,262.10
 Other Additions		
Other Revenue	137,737,149.11	137,737,149.11
Total Other Additions	137,737,149.11	137,737,149.11
 Total Additions	 157,127,411.21	 157,127,411.21
<b>DEDUCTIONS</b>		
Settlement of Claims	53,624,129.06	53,624,129.06
Public Assistance	100,000,000.00	100,000,000.00
Other Expense	5,339,506.59	5,339,506.59
Transfers Out	1,000,000.00	1,000,000.00
Total Deductions	159,963,635.65	159,963,635.65
 <b>NET INCREASE (DECREASE)</b>	 (2,836,224.44)	 (2,836,224.44)
 Net Assets- September 1, 2007	573,419,957.38	573,419,957.38
Restatements	-	-
Net Assets, September 1, 2007 As Restated	573,419,957.38	573,419,957.38
 Net Assets - August 31, 2008	 \$ 570,583,732.94	 \$ 570,583,732.94

## UNAUDITED

### 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 Chapter of 31.002 of the Texas Insurance Code. Chapter 31.002 states "the department shall (1) regulate the business of insurance in this state; (2) administer the workers' compensation system of this state as provided by Title 5 Labor Code, and (3) ensure that this code and other laws regarding insurance and insurance companies are executed." The history of the Agency dates back to the Texas Constitution of 1876. Since then, the composition of the Agency has changed several times. In 1993, 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. Additionally, effective September 1, 2005, House Bill 7, 79<sup>th</sup> Legislature, Regular Session, created the Division of Workers' Compensation within the Texas Department of Insurance. This legislation transferred many of the duties and functions of the abolished Texas Workers' Compensation Commission to the Division of Workers' Compensation to administer and operate the workers' compensation system of the State.

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

Due to the statewide requirements embedded in 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 comply with all the requirements in this statement. 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 be blended into an appropriate fund.

#### Discretely Presented 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 carriers.
- The Texas Health Insurance Risk Pool was created 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. It is governed by a nine-member board appointed by the Commissioner of Insurance, who also approves rates and rate schedules used by the Risk Pool.

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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 Assets Adjustment Fund Type

Capital Assets 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 for which 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 17.

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

## UNAUDITED

### 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 basis of accounting. Under the modified accrual basis, revenues are recognized in the period in which 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 accrual basis. 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 basis of accounting. This includes capital assets, accumulated depreciation, unpaid Employee Compensable Leave, and full accrual revenues and expenses. The activity will be recognized in these fund types.

Proprietary 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 in connection with the proprietary funds principal ongoing operations. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

#### **BUDGET 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 BALANCES/NET ASSETS**

##### ASSETS

###### Cash and Cash Equivalents

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

###### Inventories and Prepaid Items

Inventories consist of consumable inventories. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. 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. 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. Depreciation is charged to operations over the estimated useful life of each asset, using the straight-line method.

###### Current Receivables - Other

Other receivables include year-end revenue accruals. This account can appear in governmental and proprietary fund types.

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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.

##### Current Payables - Other

Payables are the accrual at year-end of expenditure transactions. Payables may be included in either the governmental or proprietary fund types.

##### Non-Current Payables - Other

Outstanding claims for the Texas Health Insurance Risk Pool are classified as Other Liabilities by the Comptroller of Public Accounts.

##### Claims and Judgments

Claims and judgments which are settled but unpaid at year-end and will be paid with future fund resources.

##### 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 fund 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.

##### 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 ACTIVITIES 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.

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**TEXAS DEPARTMENT OF INSURANCE (454)**

**NOTE 2: CAPITAL ASSETS**

Revenue received from the sale of Surplus Property is recorded in Unappropriated General Revenue.

A summary of changes in Capital Assets for the year ended August 31, 2008 is presented below:

Asset Type	Balance 9/1/07	Adjust- ments	PRIMARY GOVERNMENT			Additions	Deletions	Balance 8/31/08
			Comple- -ed CIP	Inc- Int'agy Trans	Dec-Int'agy Trans			
Governmental activities:								
Non-depreciable Assets								
Other Capital Assets	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total non-depreciable assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciable Assets								
Furniture and Equipment	8,680,254.32	(40,000.00)	0.00	0.00	(7,761.00)	9,878.02	(514,352.22)	8,128,019.12
Vehicles	1,117,747.58	0.00	0.00	0.00	0.00	197,305.28	(169,034.11)	1,146,018.75
Other Capital Assets	15,899.30	0.00	0.00	0.00	0.00	6,500.00	0.00	22,399.30
Total depreciable assets at historical costs	9,813,901.20	(40,000.00)	0.00	0.00	(7,761.00)	213,683.30	(683,386.33)	9,296,437.17
Less accumulated depreciation for:								
Furniture and Equipment	(7,495,585.01)		0.00	0.00	5,820.66	(490,130.32)	484,383.31	(7,495,511.36)
Vehicles	(722,045.08)	0.00	0.00	0.00	0.00	(99,449.78)	169,034.11	(652,460.75)
Other Capital Assets	(9,708.44)	0.00	0.00	0.00	0.00	(2,967.54)	0.00	(12,675.98)
Total accumulated depreciation	(8,227,338.53)		0.00	0.00	5,820.66	(592,547.64)	653,417.42	(8,160,648.09)
Depreciable assets, net	1,586,562.67		0.00	0.00	(1,940.34)	(378,864.34)	(29,968.91)	1,135,789.08
Governmental activities capital assets, net	\$ 1,586,562.67	\$ (40,000.00)	\$ 0.00	\$ 0.00	\$ (1,940.34)	\$ (378,864.34)	\$ (29,968.91)	\$ 1,135,789.08

**DISCRETELY PRESENTED COMPONENT UNITS**

Asset Type	Balance 9/1/07	Adjust \$-ments	Comple- -ed CIP	Inc-Int'agy Trans	Dec-Int'agy Trans	\$ Additions	\$ Deletions	Balance 8/31/08
Depreciable Assets								
Furniture and Equipment	3,320,599.00	0.00	0.00	0.00	0.00	182,215.00	(206,090.00)	3,296,723.00
Total depreciable assets at historical costs	3,320,599.00	0.00	0.00	0.00	0.00	182,215.00	(206,090.00)	3,296,723.00
Less accumulated depreciation for:								
Furniture and Equipment	(2,845,386.00)	0.00	0.00	0.00	0.00	(265,545.00)	206,090.00	(2,904,840.00)
Total accumulated depreciation	(2,845,386.00)	0.00	0.00	0.00	0.00	(265,545.00)	206,090.00	(2,904,840.00)
Depreciable assets, net	475,213.00	0.00	0.00	0.00	0.00	(83,330.00)	0.00	391,883.00
Business-Type activities capital assets, net	\$ 475,213.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ (83,330.00)	\$ 0.00	\$ 391,883.00

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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**

As of August 31, 2008, the carrying amount of deposits was \$4,084,256.24 as presented below.

<b>Governmental and Business-Type Activities</b>	
CASH IN BANK – CARRYING VALUE	\$105,998.36
Cash In Bank Per AFR	<u>105,998.36</u>
Governmental Funds Current Assets Cash in Bank	\$105,998.36
Governmental Funds Texas Treasury Safekeeping Trust	0.00
Cash in Bank per AFR	<u>\$105,998.36</u>
<b>Fiduciary Funds</b>	
CASH IN BANK – CARRYING VALUE	\$622,449.88
Cash In Bank Per AFR	<u>\$622,449.88</u>
Fiduciary Funds Current Assets Cash in Bank	\$ 93,819.00
Fiduciary Funds Texas Treasury Safekeeping Trust	528,630.88
Cash in Bank per AFR	<u>\$622,449.88</u>
<b>Discrete Component Units</b>	
CASH IN BANK – CARRYING VALUE	\$3,355,808.00
Cash In Bank Per AFR	<u>\$3,355,808.00</u>
Discrete Component Unit Current Assets Cash in Bank	\$3,355,808.00
Cash in Bank per AFR	<u>\$3,355,808.00</u>

These amounts consist of all cash in local banks. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents" accounts.

As of August 31, 2008 the total bank balance was as follows.

Governmental and Business-Type Activities	\$105,998.36	Fiduciary Funds	\$622,449.88	Discrete Component Units	\$3,355,808.00
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Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency and the discrete component units will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The agency does not have a policy for custodial credit risk but maintains cash balances in a major financial institution and monitors account balances for amounts over \$100,000 of the FDIC limit. The Surplus Lines Stamping Office's cash deposits are held in a major financial institution and are insured up to \$100,000. Management monitors balance in all accounts and has not experienced any losses on the deposits. The Texas Health Insurance Risk Pool monitors balances. Management does not believe the amount exceeding the federal insured limit represents a significant or unusual risk. The bank balances that were exposed to custodial credit risks are as follows:

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Fund Type	GAAP Fund	Uninsured and uncollateralized	Uninsured and collateralized with securities held by the pledging financial institution	Uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the state's name
15	3159	\$148,813.00		
15	4152	\$20,275.00		

**INVESTMENTS**

As of August 31, 2008, the carrying value and fair value of investments are as presented below.

<u>Governmental and Business-Type Activities</u>	<u>Fair Value</u>
Repurchase Agreements-Texas Treasury Safekeeping Trust Co	\$ 7,862,674.25
<b>Total</b>	<b><u>\$ 7,862,674.25</u></b>

<u>Fiduciary Funds</u>	<u>Fair Value</u>
U.S. Government:	\$
U.S. Treasury Securities	2,795,367.96
Repurchase Agreements-Texas Treasury Safekeeping Trust Co	566,536,468.17
<b>Total</b>	<b><u>\$ 569,331,836.13</u></b>

<u>Discreet Component Units</u>	<u>Fair Value</u>
U.S. Government:	\$
U.S. Treasury Securities	10,420,477.00
U.S. Government Agency Obligations	79,407,000.00
Repurchase Agreement	8,107,585.00
Money Market	1,854,637.00
<b>Total</b>	<b><u>\$ 99,789,699.00</u></b>

Custodial credit risk for investments is that risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The agency's investment policy limits holding of securities by counterparties to those involved with securities lending. The Surplus Lines Stamping Office investment policies limit the amount of credit exposure and the types of investments that can be purchased. The Stamping Office's investments are held by a registered broker/dealer and are protected by SIPC up to \$500,000 of which no more than \$100,000 may be in cash.

Fund Type	GAAP Fund	Type	Uninsured and unregistered with securities held by the counterparty	Uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the state's name
20	9999	US Government Securities	\$ 2,795,367.96	
15	3159	US Treasury Securities	9,920,477.00	

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Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Texas Health Insurance Risk Pool had investments in U.S. Government Sponsored Enterprises. As of August 31, 2008, the Pool's credit quality distribution for securities with credit risk exposure was as follows:

Fund Type	GAAP Fund	Investment Type	AAA	AA	A	BB
15	4152	US Government Agency Obligations	\$ 79,407,000.00			

Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. As of August 31, 2008 the Texas Health Insurance Risk Pool's concentration of credit risk as follows:

Fund Type	GAAP Fund	Issuer	Carry Value	% of total portfolio
15	4152	FHLB Discount Corp.	\$ 30,174,660.00	38%
15	4152	Freddie Discount Notes	4,764,420.00	6%
15	4152	FNMA Discount Notes	44,467,920.00	56%

**NOTE 4: SUMMARY OF SHORT-TERM DEBT**

N/A

**NOTE 5: SUMMARY OF LONG-TERM LIABILITIES**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2008, the following changes occurred in liabilities.

Governmental Activities	PRIMARY GOVERNMENT			Balance 8/31/08	Amounts Due Within One Year
	Balance 9/1/07	Additions	Reductions		
Claims and Judgments	\$ 12,469,654.17	\$ 1,930,526.45	\$ 991,595.98	\$ 13,408,584.64	\$ 514,466.55
Compensable Leave	7,651,311.47	7,050,909.59	6,686,893.58	8,015,327.48	4,765,563.01
<b>Total Governmental Activities</b>	<b>\$ 20,120,965.64</b>	<b>\$ 8,981,436.04</b>	<b>\$ 7,678,489.56</b>	<b>\$ 21,423,912.12</b>	<b>\$ 5,280,029.56</b>

Proprietary Activities	DISCRETELY PRESENTED COMPONENT UNITS			Balance 8/31/08	Amounts Due Within One Year
	Balance 9/1/07	Additions	Reductions		
Other Liabilities	\$ 25,550,000.00	\$ 0.00	\$ 2,300,000.00	\$ 23,250,000.00	\$ 0.00
<b>Total Proprietary Activities</b>	<b>\$ 25,550,000.00</b>	<b>\$ 0.00</b>	<b>\$ 2,300,000.00</b>	<b>\$ 23,250,000.00</b>	<b>\$ 0.00</b>

**Claims and Judgments**

Lifetime Income Benefits are paid until the death of an employee for total and permanent loss of a body part as provided in Section 408.161 of the Texas Labor Code. The amount of lifetime income benefits is equal to 75 percent of the employee's average weekly wage and benefits being paid shall be increased at a rate of three percent a year subject to Section 408.061 of the Texas Labor Code.

**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. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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**Other Liabilities**

Outstanding claims for the Texas Health Insurance Risk Pool are classified as Other Liabilities by the Comptroller of Public Accounts.

**NOTE 6: CAPITAL LEASES**

N/A

**NOTE 7: 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:

PRIMARY GOVERNMENT	
Year Ended August 31, 2008	
2009	\$ 2,954,807.92
2010	2,776,159.28
2011	2,672,431.00
2012	2,233,485.30
2013	1,844,538.00
2014-2019	<u>699,752.00</u>
Total Minimum Future Lease Rental Payments	<u>\$ 13,181,173.50</u>

DISCRETELY PRESENTED COMPONENT UNITS	
Year Ended August 31, 2008	
2009	\$ 283,153.00
2010	260,680.00
2011	245,924.00
2012 & After	<u>-</u>
Total Minimum Future Lease Rental Payments	<u>\$ 789,757.00</u>

**NOTE 8: INTERFUND BALANCES/ACTIVITIES**

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:

- Interfund Receivables or Interfund Payables
- Due from Other Agencies or Due To Other Agencies
- Transfers In or Transfers Out
- Legislative Transfers In or Legislative Transfers Out

Interfund payable and receivable balances at August 31, 2008 to reflect outstanding expenditure transfer items between General Revenue Fund (0001) and the Texas Department of Insurance General Revenue Dedicated Fund (0036):

	Current Interfund Receivable	Current Interfund Payable
GENERAL REVENUE Appropriated Fund 0001 (Agency 454)	\$ 0.00	\$ 90,513.79
GENERAL REVENUE DEDICATED Appropriated Fund 0036 (Agency 454)	<u>\$ 90,513.79</u>	<u>\$ 0.00</u>
Total Interfund Receivable/Payable	<u>\$ 90,513.79</u>	<u>\$ 90,513.79</u>

Balances and activity for Legislative Transfers In or Legislative Transfers Out at August 31, 2008 follow:

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	Legislative Transfers In	Legislative Transfers Out
GENERAL REVENUE Appropriated Fund 0001 (Agency 902, Fund 0001)	\$ 0.00	\$ 216,028.45
Total Legislative Transfers	\$ 0.00	\$ 216,028.45

**NOTE 9: CONTINGENT LIABILITIES**

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

- Personnel There are no pending actions related to personnel matters. In July 2008, one personnel matter was resolved through mediation and resulted in a settlement agreement.
- Regulatory There are a number of pending actions to which TDI and DWC is a party in connection with regulatory duties. These generally do not seek monetary relief, other than attorneys' fees, but rather seek to reverse a regulatory action of the agency.

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

**NOTE 10: CONTINUANCE SUBJECT TO REVIEW**

Under the Texas Sunset Act, the Agency will be abolished on September 1, 2009, unless continued in existence by the 81st Legislature as provided by the Act.

**NOTE 11: 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. The only commercial insurance carried by the Agency is a Public Officers Liability Insurance policy, which is issued in accordance with terms and conditions from the State Office of Risk Management. The Texas Department of Insurance is not 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 were 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 2007 and 2008 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>
2007	\$	0.00	\$ 1,419.31	\$ 1,419.31	\$ 0.00
2008		0.00	24,630.85	24,630.85	0.00

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### TEXAS DEPARTMENT OF INSURANCE (454)

#### NOTE 12: SEGMENT INFORMATION

N/A

#### NOTE 13: BONDED INDEBTEDNESS

N/A

#### NOTE 14: SUBSEQUENT EVENTS

##### Certification of a Catastrophe Event

On September 13, 2008, Hurricane Ike made landfall in Texas as a Category 2 hurricane producing damage and losses to Texas structures and properties within the catastrophe area as defined by Chapter 2210, of the Texas Insurance Code (TIC). Pursuant to §2210.452(d), 28 Texas Administrative Code §5.9903 © (TAC) and the Funds Management Agreement (FMA), the Commissioner of Insurance authorized the transfer of all funds in the Catastrophe Reserve Trust Fund to the Texas Windstorm Insurance Association for the payment of losses as defined by the Act, the FMA and the TAC. The approximate amount of transfer was \$370,000,000.

Pursuant to TIC §2210.058(a)(4), the Texas Windstorm Insurance Association has assessed member insurers \$230 million for losses related to the hurricane. Per TIC §2210.058( c ) insurers may credit amounts paid in accordance with §2210.058(a)(4) in a calendar year against the insurer's premium tax paid under TIC Chapter 221. The tax credit authorized shall be allowed at a rate not to exceed 20 percent per year for five or more consecutive years. Pursuant to TIC Chapter 227 premium taxes are deposited to the General Revenue Fund with twenty-five percent being transferred to the Foundation School Fund.

#### NOTE 15: RELATED PARTIES

Liquidation Oversight is primarily funded by the assets of receiverships. Currently, there are budgeted positions for twelve allocated employees and three-quarter for appropriated employees. Liquidation Oversight operations include legal, docketing, financial/auditing and records management.

#### NOTE 16: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

N/A

#### NOTE 17: THE FINANCIAL REPORTING ENTITY AND JOINT VENTURES

##### The Financial Reporting Entity

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 Texas Department of Insurance is financially accountable for the following legally separate entities; however, they do not provide services entirely or almost entirely to the Texas Department of Insurance. They are reported in separate exhibits to emphasize that they are legally separate from the Texas Department of Insurance.

1. The *Surplus Lines Stamping Office of Texas* was created pursuant to Chapters 981.151 – 981.160 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. The State of Texas has the ability to impose its will upon the stamping office through the approval of the assessment rate that funds its operations.

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**TEXAS DEPARTMENT OF INSURANCE (454)**

2. The *Texas Health Reinsurance System* reinsures risks covered under the health benefit plans of small employers' insurance carriers. The Commissioner of Insurance appoints, supervises and controls the nine-member board. The State of Texas has the ability to impose its will through TDI Commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers.
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 160170  
Austin, Texas 78716-0170

Texas Health Insurance Risk Pool  
1701 Director's Blvd., Suite 120  
Austin, TX 78744

Texas Health Reinsurance System  
100 Great Meadow Road, Suite 704  
Wethersfield, CT 06109

**Related Organizations**

1. The **Life, Accident, Health and Hospital Service Insurance Guaranty Association** was created pursuant to Chapter 463 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 Chapter 2602 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  
6504 Bridge Point Parkway, Suite 450  
Austin, TX 78730

Texas Title Insurance Guaranty Association  
106 East 6<sup>th</sup> Street, Suite 300  
Austin, TX 78701-3661

**NOTE 18: RESTATEMENT OF FUND BALANCES/NET ASSETS**

During FY 2008, an adjustment was made which required the restatement of the amounts in fund balance to correct ending fund balance and payables from FY 2007.

<u>Fund Balance</u>	<u>General Revenue</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds</u>
Fund Balance 8-31-07	\$ 149,307,661.32	\$ 8,406,547.64	\$ 157,714,208.96
Restatement	113,878.31	0	113,878.31
Fund Balance 9-1-07, As Restated	<u>\$ 149,421,539.63</u>	<u>\$ 8,406,547.64</u>	<u>\$ 157,828,087.27</u>

For the government-wide statements during FY 2008, an adjustment was made in the recording of depreciation which required the restatement of the amount in Capital Assets.

<u>Government-Wide Statement Net Assets</u>	<u>Capital Assets Adjustments</u>
Net Assets-Beginning 8-31-07	\$ 1,586,562.67
Restatement	(40,000.00)
Net Assets 9-1-07, As Restated	<u>\$ 1,546,562.67</u>

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**TEXAS DEPARTMENT OF INSURANCE (454)**

**NOTE 19: EMPLOYEE RETIREMENT PLANS**

The Employees' Retirement System administers and reports the activity for the plan.

**NOTE 20: DEFERRED COMPENSATION PLANS**

The Employee's Retirement System administers and reports the activity for the plan.

**NOTE 21: DONOR-RESTRICTED ENDOWMENTS**

N/A

**NOTE 22: MANAGEMENT DISCUSSION AND ANALYSIS**

N/A

**NOTE 23: POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE BENEFITS**

N/A

**NOTE 24: SPECIAL OR EXTRAORDINARY ITEMS**

N/A

**NOTE 25: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES**

N/A

**NOTE 26: TERMINATION BENEFITS**

N/A

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**Texas Department of Insurance (454)**  
**Exhibit A-1 - Combining Balance Sheet - All General and Consolidated Funds**

August 31, 2008

	<u>General Revenue</u>	<u>Consolidated Accounts</u>		
		<u>GR Account -Tx Department of Insurance Operating</u>	<u>GR Account - Subsequent Injury Fund</u>	
	<u>General Revenue</u>			
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents				
On Hand	\$ -	\$ 685.00	\$ -	\$ 685.00
In Bank	-	50,000.00	-	50,000.00
Legislative Appropriations	102,614.61	-	-	102,614.61
In State Treasury	-	112,273,603.72	55,608,106.15	167,881,709.87
Receivables from:				
Accounts Receivable	-	1,499,216.99	62,759.80	1,561,976.79
Interfund Receivable (Note 8)	-	90,513.79	-	90,513.79
Due From Other Agencies	-	30,832.86	-	30,832.86
Consumable Inventories	-	128,715.22	-	128,715.22
Total Current Assets	<u>102,614.61</u>	<u>114,073,567.58</u>	<u>55,670,865.95</u>	<u>169,847,048.14</u>
Total Assets	<u>\$ 102,614.61</u>	<u>\$ 114,073,567.58</u>	<u>\$ 55,670,865.95</u>	<u>\$ 169,847,048.14</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Current Liabilities:				
Payables from:				
Accounts	\$ 342.00	\$ 3,456,869.63	\$ -	\$ 3,457,211.63
Payroll	11,758.82	7,772,710.08	-	7,784,468.90
Interfund Payable (Note 8)	90,513.79	-	-	90,513.79
Due To Other Agencies	-	9,781,346.06	-	9,781,346.06
Deferred Revenue	-	36,123.53	-	36,123.53
Total Current Liabilities	<u>102,614.61</u>	<u>21,047,049.30</u>	<u>-</u>	<u>21,149,663.91</u>
Total Liabilities	<u>102,614.61</u>	<u>21,047,049.30</u>	<u>-</u>	<u>21,149,663.91</u>
<b>FUND FINANCIAL STATEMENT</b>				
Fund Balances (Deficits):				
Reserved for:				
Encumbrances	\$ -	\$ 1,236,654.29	\$ -	\$ 1,236,654.29
Inventories	-	128,715.22	-	128,715.22
Imprest	-	50,685.00	-	50,685.00
Unreserved Designated for:				
Undesignated	-	91,610,463.77	55,670,865.95	147,281,329.72
Total Fund Balances	<u>-</u>	<u>93,026,518.28</u>	<u>55,670,865.95</u>	<u>148,697,384.23</u>
Total Liabilities and Fund Balances	<u>\$ 102,614.61</u>	<u>\$ 114,073,567.58</u>	<u>\$ 55,670,865.95</u>	<u>\$ 169,847,048.14</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 A-2 - Combining Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances – All General and Consolidated Funds**

For the Fiscal Year Ended August 31, 2008

	General Revenue	Consolidated Accounts		Total (Ex II)
	General Revenue (0001)	GR Account -Tx Department of Insurance Operating (0036)	GR Account - Subsequent Injury Fund (5101)	
<b>REVENUES</b>				
Original Appropriations	\$ 230,926.00	\$ -	\$ -	230,926.00
Additional Appropriations	41,929.40	-	-	41,929.40
Taxes	-	1,310,361.04	-	1,310,361.04
Federal Revenue	567,783.76	2,225,033.90	-	2,792,817.66
Federal Pass-Through Revenue	-	89,232.86	-	89,232.86
Licenses, Fees & Permits	6,054.00	34,469,997.02	-	34,476,051.02
Sales of Goods and Services	-	11,541.35	-	11,541.35
Other	-	1,274,351.95	5,459,472.88	6,733,824.83
<b>Total Revenues</b>	<b>846,693.16</b>	<b>39,380,518.12</b>	<b>5,459,472.88</b>	<b>45,686,684.16</b>
<b>EXPENDITURES</b>				
Salaries and Wages	215,240.64	72,189,297.24	-	72,404,537.88
Payroll Related Costs	38,076.99	20,778,928.26	-	20,817,005.25
Professional Fees and Services	-	3,152,488.64	-	3,152,488.64
Travel	-	2,229,192.75	-	2,229,192.75
Materials and Supplies	-	3,140,501.85	-	3,140,501.85
Communication and Utilities	-	1,631,642.75	-	1,631,642.75
Repairs and Maintenance	-	719,009.07	-	719,009.07
Rentals & Leases	17,599.15	3,476,441.53	-	3,494,040.68
Printing and Reproduction	-	270,861.20	-	270,861.20
Claims and Judgments (Note 11)	-	24,630.85	4,421,529.29	4,446,160.14
Intergovernmental Payments	-	265,000.00	-	265,000.00
Public Assistance Payments	-	10,000.00	-	10,000.00
Other Expenditures	6,961.51	3,984,550.55	-	3,991,512.06
Capital Outlay	-	213,683.30	-	213,683.30
<b>Total Expenditures/Expenses</b>	<b>277,878.29</b>	<b>112,086,227.99</b>	<b>4,421,529.29</b>	<b>116,785,635.57</b>
Excess (Deficiency) of Revenues Over Expenditures	568,814.87	(72,705,709.87)	1,037,943.59	(71,098,951.41)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	106,943,041.31	46,725,624.30	153,668,665.61
Transfers Out	(853,637.40)	(35,906,517.95)	(46,725,624.30)	(83,485,779.65)
Sale of Capital Assets	35,057.50	(4,772.50)	-	30,285.00
Insurance Recovery	-	1,400.00	-	1,400.00
Legislative Transfers Out	216,028.45	-	-	216,028.45
Appropriations Lapsed	(55,803.40)	-	-	(55,803.40)
<b>Total Other Financing Sources and Uses</b>	<b>(658,354.85)</b>	<b>71,033,150.86</b>	<b>-</b>	<b>70,374,796.01</b>
<b>Net Change in Fund Balances/Net Assets</b>	<b>(89,539.98)</b>	<b>(1,672,559.01)</b>	<b>1,037,943.59</b>	<b>(724,155.40)</b>
<b>FUND FINANCIAL STATEMENT-FUND BALANCES</b>				
Fund Balances--Beginning	(24,338.33)	94,699,077.29	54,632,922.36	149,307,661.32
Restatements	113,878.31	-	-	113,878.31
Fund Balances, September 1, 2007, as Restated	89,539.98	94,699,077.29	54,632,922.36	149,421,539.63
Fund Balances--August 31, 2008	\$ -	\$ 93,026,518.28	\$ 55,670,865.95	\$ 148,697,384.23

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

August 31, 2008

	Private-Purpose Catastrophe Reserve Trust Fund (3204) U/F (0050)	Unclaimed Dividend Trust Fund (0923) U/F (0923)	Private-Purpose Estates/Securities in Trust (2999) U/F (2999)	Totals (Ex VI)
<b>ASSETS</b>				
Cash and Cash Equivalents:				
Cash in Bank	\$ -	\$ -	\$ 622,449.88	\$ 622,449.88
Cash in State Treasury	-	629,446.93	-	629,446.93
Cash Equivalents	368,908,212.92	-	200,423,623.21	569,331,836.13
Other Assets	-	-	76,469,078.54	76,469,078.54
Total Assets	<u>368,908,212.92</u>	<u>629,446.93</u>	<u>277,515,151.63</u>	<u>647,052,811.48</u>
<b>LIABILITIES</b>				
Funds Held for Others	-	-	76,469,078.54	76,469,078.54
Total Liabilities	<u>-</u>	<u>-</u>	<u>76,469,078.54</u>	<u>76,469,078.54</u>
<b>NET ASSETS</b>				
Held in trust for:				
Individuals, Organizations, and Other Governments	368,908,212.92	629,446.93	201,046,073.09	570,583,732.94
Total Net Assets	<u>\$ 368,908,212.92</u>	<u>\$ 629,446.93</u>	<u>\$ 201,046,073.09</u>	<u>\$ 570,583,732.94</u>

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

August 31, 2008

	Private-Purpose Catastrophe Reserve Trust Fund (3204) U/F (0050)	Unclaimed Dividend Trust Fund (0923) U/F (0923)	Private-Purpose Estates/Securities in Trust (2999) U/F (2999)	Total (Ex VII)
<b>ADDITIONS</b>				
Investment Income				
From Investing Activities:				
Interest and Investment Income	\$ 13,075,334.90	\$ 26,684.46	\$ 6,288,242.74	\$ 19,390,262.10
Total Investing Income	13,075,334.90	26,684.46	6,288,242.74	19,390,262.10
Less Investing Activities Expense				-
Net Income from Investing Activities	13,075,334.90	26,684.46	6,288,242.74	19,390,262.10
 Total Net Investment Income	 13,075,334.90	 26,684.46	 6,288,242.74	 19,390,262.10
 Other Additions				
Other Revenue	74,335,805.00		63,401,344.11	137,737,149.11
Total Other Additions	74,335,805.00	-	63,401,344.11	137,737,149.11
 Total Additions	 87,411,139.90	 26,684.46	 69,689,586.85	 157,127,411.21
<b>DEDUCTIONS</b>				
Claims & Judgments			53,624,129.06	53,624,129.06
Public Assistance	100,000,000.00			100,000,000.00
Other Expense	75,175.20		5,264,331.39	5,339,506.59
Transfers Out	1,000,000.00			1,000,000.00
Total Deductions	101,075,175.20	-	58,888,460.45	159,963,635.65
 <b>NET INCREASE (DECREASE)</b>	 <b>(13,664,035.30)</b>	 <b>26,684.46</b>	 <b>10,801,126.40</b>	 <b>(2,836,224.44)</b>
 Net Assets- September 1, 2007	 382,572,248.22	 602,762.47	 190,244,946.69	 573,419,957.38
Restatements				-
Net Assets, September 1, 2007, As Restated	382,572,248.22	602,762.47	190,244,946.69	573,419,957.38
 Net Assets - August 31, 2008	 <u>\$ 368,908,212.92</u>	 <u>\$ 629,446.93</u>	 <u>\$ 201,046,073.09</u>	 <u>\$ 570,583,732.94</u>

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

August 31, 2008

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
<b>UNAPPROPRIATED RECEIPTS</b>				
<b>General Revenue Fund (1000) U/F (0003)</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ -	\$ 8,781,798.68	\$ 8,781,798.68	\$ -
Accounts Receivable, Net	163,044.18	204,194.33	163,044.18	204,194.33
<b>Total Assets</b>	<b>163,044.18</b>	<b>8,985,993.01</b>	<b>8,944,842.86</b>	<b>204,194.33</b>
<b>LIABILITIES</b>				
Accounts Payable	0.00	24,327.70	24,327.70	0.00
Due to other Agencies	163,044.18	204,194.33	163,044.18	204,194.33
Funds Held for Others	0.00	8,781,798.68	8,781,798.68	0.00
<b>Total Liabilities</b>	<b>163,044.18</b>	<b>9,010,320.71</b>	<b>8,969,170.56</b>	<b>204,194.33</b>
<b>City, Cty, Mta &amp; Spd (0882) U/F (0882)</b>				
<b>ASSETS</b>				
Cash in State Treasury	0.00	169.02	169.02	0.00
<b>Total Assets</b>	<b>0.00</b>	<b>169.02</b>	<b>169.02</b>	<b>0.00</b>
<b>LIABILITIES</b>				
Funds Held for Others	0.00	169.02	169.02	0.00
<b>Total Liabilities</b>	<b>0.00</b>	<b>169.02</b>	<b>169.02</b>	<b>0.00</b>
<b>Tx Worker's Comp Self Insurance Fund (0893) U/F (0893)</b>				
<b>ASSETS</b>				
Cash in State Treasury	15,750,000.00	33,111,478.29	44,794,012.90	4,067,465.39
Other Current Assets	687,183,485.00	26,742,534.33	0.00	713,926,019.33
<b>Total Assets</b>	<b>702,933,485.00</b>	<b>59,854,012.62</b>	<b>44,794,012.90</b>	<b>717,993,484.72</b>
<b>LIABILITIES</b>				
Accounts Payable	0.00	12,568,180.27	12,568,180.27	0.00
Funds Held for Others	702,933,485.00	44,063,825.65	29,003,825.93	717,993,484.72
<b>Total Liabilities</b>	<b>702,933,485.00</b>	<b>56,632,005.92</b>	<b>41,572,006.20</b>	<b>717,993,484.72</b>
<b>Departmental Suspense (0900) U/F (0900)</b>				
<b>ASSETS</b>				
Cash in State Treasury	0.00	2,667,066.94	2,667,066.94	0.00
<b>Total Assets</b>	<b>0.00</b>	<b>2,667,066.94</b>	<b>2,667,066.94</b>	<b>0.00</b>
<b>LIABILITIES</b>				
Accounts Payable	0.00	2,451.00	2,451.00	0.00
Funds Held for Others	0.00	2,667,066.94	2,667,066.94	0.00
<b>Total Liabilities</b>	<b>0.00</b>	<b>2,667,066.94</b>	<b>2,667,066.94</b>	<b>0.00</b>
<b>US Savings Bond Account (0901) U/F (0901)</b>				
<b>ASSETS</b>				
Cash in State Treasury	4,935.00	49,705.00	49,585.00	5,055.00
<b>Total Assets</b>	<b>4,935.00</b>	<b>49,705.00</b>	<b>49,585.00</b>	<b>5,055.00</b>
<b>LIABILITIES</b>				
Accounts Payable	0.00	49,300.00	49,300.00	0.00
Funds Held for Others	4,935.00	49,705.00	49,585.00	5,055.00
<b>Total Liabilities</b>	<b>4,935.00</b>	<b>49,705.00</b>	<b>49,585.00</b>	<b>5,055.00</b>

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

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

August 31, 2008

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
<b><u>LIFE/HLTH/ACC/CAS INS TR ACCT (0921) U/F (0921)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	214,588.00	270,588.00	214,588.00	270,588.00
Other Assets	883,987,915.49	450,791,498.00	276,348,143.52	1,058,431,269.97
Total Assets	<u>884,202,503.49</u>	<u>451,062,086.00</u>	<u>276,562,731.52</u>	<u>1,058,701,857.97</u>
<b>LIABILITIES</b>				
Funds Held for Others	884,202,503.49	450,847,498.00	276,348,143.52	1,058,701,857.97
Total Liabilities	<u>884,202,503.49</u>	<u>450,847,498.00</u>	<u>276,348,143.52</u>	<u>1,058,701,857.97</u>
<b><u>TEXASAVER HOLD-TRANSMIT 401K FUND (0942) U/F (0942)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	0.00	2,683,786.80	2,683,786.80	0.00
Accounts Receivable, Net	0.00	2,691,178.24	2,691,178.24	0.00
Total Assets	<u>0.00</u>	<u>5,374,965.04</u>	<u>5,374,965.04</u>	<u>0.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	0.00	2,691,178.24	2,691,178.24	0.00
Total Liabilities	<u>0.00</u>	<u>2,691,178.24</u>	<u>2,691,178.24</u>	<u>0.00</u>
<b><u>Direct Deposit Correction Fund (0980) U/F (0980)</u></b>				
<b>ASSETS</b>				
Cash in State Treasury	0.00	2,570.61	2,570.61	0.00
Total Assets	<u>0.00</u>	<u>2,570.61</u>	<u>2,570.61</u>	<u>0.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	0.00	2,570.61	2,570.61	0.00
Total Liabilities	<u>\$ -</u>	<u>\$ 2,570.61</u>	<u>\$ 2,570.61</u>	<u>\$ -</u>
<b>Totals - All Agency Funds (Exhibit VI)</b>				
<b>ASSETS</b>				
Cash in State Treasury	\$ 15,969,523.00	\$ 47,567,163.34	\$ 59,193,577.95	\$ 4,343,108.39
Accounts Receivable, Net	163,044.18	2,895,372.57	2,854,222.42	204,194.33
Other Assets	1,571,171,400.49	477,534,032.33	276,348,143.52	1,772,357,289.30
Total Assets	<u>1,587,303,967.67</u>	<u>527,996,568.24</u>	<u>338,395,943.89</u>	<u>1,776,904,592.02</u>
<b>LIABILITIES</b>				
Accounts Payable	0.00	12,644,258.97	12,644,258.97	0.00
Due to Other Agencies	163,044.18	204,194.33	163,044.18	204,194.33
Funds Held for Others	1,587,140,923.49	509,103,812.14	319,544,337.94	1,776,700,397.69
Total Liabilities	<u>\$ 1,587,303,967.67</u>	<u>\$ 521,952,265.44</u>	<u>\$ 332,351,641.09</u>	<u>\$ 1,776,904,592.02</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, 2008

	Surplus Lines Stamping Office of Texas (3159) U/F (0391)	Texas Health Reinsurance System (4151) U/F (0392)	Texas Health Insurance Risk Pool (4152) U/F (0393)	Totals (Ex III)
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents:				
Cash in Bank	\$ 249,212.00	\$ 2,986,322.00	\$ 120,274.00	\$ 3,355,808.00
Cash Equivalents	10,420,477.00		1,854,637.00	12,275,114.00
Short Term Investments			87,514,585.00	87,514,585.00
Receivables from:				
Accounts Receivable	366,805.00		1,360,831.00	1,727,636.00
Other	36,435.00	4,678.00		41,113.00
Total Current Assets	<u>11,072,929.00</u>	<u>2,991,000.00</u>	<u>90,850,327.00</u>	<u>104,914,256.00</u>
Non-Current Assets:				
Capital Assets (Note 2):				
Depreciable:				
Furniture and Equipment	3,257,368.00		39,355.00	3,296,723.00
Less Accumulated Depreciation	(2,874,669.00)		(30,171.00)	(2,904,840.00)
Other Non-Current Assets	18,705.00		5,223.00	23,928.00
Total Non-Current Assets	<u>401,404.00</u>	<u>-</u>	<u>14,407.00</u>	<u>415,811.00</u>
Total Assets	<u>11,474,333.00</u>	<u>2,991,000.00</u>	<u>90,864,734.00</u>	<u>105,330,067.00</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Payables from:				
Accounts	152,514.00	64,022.00	4,362,712.00	4,579,248.00
Deferred Revenue			51,741,204.00	51,741,204.00
Other Liabilities	173,492.00	2,926,978.00	11,510,818.00	14,611,288.00
Total Current Liabilities	<u>326,006.00</u>	<u>2,991,000.00</u>	<u>67,614,734.00</u>	<u>70,931,740.00</u>
Non-Current Liabilities:				
Other Liabilities (Note 5)			23,250,000.00	23,250,000.00
Total Non-Current Liabilities	<u>-</u>	<u>-</u>	<u>23,250,000.00</u>	<u>23,250,000.00</u>
Total Liabilities	<u>326,006.00</u>	<u>2,991,000.00</u>	<u>90,864,734.00</u>	<u>94,181,740.00</u>
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	382,698.00			382,698.00
Unrestricted	10,765,629.00	-	-	10,765,629.00
Total Net Assets	<u>\$ 11,148,327.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,148,327.00</u>

Note A - These Component Units have a fiscal year end of December 31, 2007. Financial information is as of that date.

**UNAUDITED**

**Texas Department of Insurance (454)**  
**Exhibit L-2 - Combining Statement of Revenues, Expenses, and**  
**Changes in Net Assets –**

**Discretely Presented Proprietary Component Units**

For the Fiscal Year Ended August 31, 2008

	<b>Surplus Lines Stamping Office of Texas (3159) U/F (0391)</b>	<b>Texas Health Reinsurance System (4151) U/F (0392)</b>	<b>Texas Health Insurance Risk Pool (4152) U/F (0393)</b>	<b>Totals (Ex IV)</b>
<b>OPERATING REVENUES:</b>				
Sales of Goods and Services:				
Other Sales of Goods and Services	\$ 3,298,461.00	\$ -	\$ -	\$ 3,298,461.00
Premium Revenue		272,576.00	182,378,034.00	182,650,610.00
Interest and Investment Income	396,756.00	93,170.00	3,471,944.00	3,961,870.00
Federal Revenue			4,878,973.00	4,878,973.00
Other Operating Revenues	66.00	-	62,849,512.00	62,849,578.00
Total Operating Revenues	<u>3,695,283.00</u>	<u>365,746.00</u>	<u>253,578,463.00</u>	<u>257,639,492.00</u>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	1,205,944.00		277,819.00	1,483,763.00
Payroll Related Costs	435,169.00			435,169.00
Professional Fees and Services	410,847.00		13,185,372.00	13,596,219.00
Travel	8,126.00		2,650.00	10,776.00
Materials and Supplies	26,653.00		29,902.00	56,555.00
Communication and Utilities	30,684.00			30,684.00
Repairs and Maintenance	85,620.00			85,620.00
Rentals and Leases	209,457.00		65,864.00	275,321.00
Printing and Reproduction	11,102.00			11,102.00
Depreciation and Amortization	260,712.00		4,833.00	265,545.00
Other Operating Expenses	266,783.00	365,746.00	240,012,023.00	240,644,552.00
Total Operating Expenses	<u>2,951,097.00</u>	<u>365,746.00</u>	<u>253,578,463.00</u>	<u>256,895,306.00</u>
Operating Income (Loss)	<u>744,186.00</u>	<u>-</u>	<u>-</u>	<u>744,186.00</u>
Change in Net Assets	<u>744,186.00</u>	<u>-</u>	<u>-</u>	<u>744,186.00</u>
Total Net Assets, September 1, 2007	10,404,141.00			10,404,141.00
Restatements				-
Total Net Assets, September 1, 2007, as Restated	<u>10,404,141.00</u>	<u>-</u>	<u>-</u>	<u>10,404,141.00</u>
Total Net Assets, August 31, 2008	<u>\$ 11,148,327.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,148,327.00</u>

Note A - These Component Units have a fiscal year end of December 31, 2007. Financial information is as of that date.

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

For the fiscal year ended August 31, 2008

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/ PROGRAM TITLE	CFDA number	Pass-Through From			Non-State Entities Amount	Direct Program Amount
		Identifying Number	Agy./ Univ. #	Agencies or Univ. Amount		
<b>U.S. Department of Labor</b>						
Direct Program:						
Compensation and Working Conditions	17.005			\$ -	\$ -	\$ 244,094.70
Consultation Agreements	17.504					2,548,722.96
Total U.S. Department of Labor				<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,792,817.66</u>
<b>U.S. Dept of Health and Human Svcs</b>						
Pass-Through From:						
Department of Aging and Disability Services						
Centers for Medicare and Medicaid Services (CMS)						
Research, Demonstrations and Evaluations	93.779		539	\$ 89,232.86	\$ -	\$ -
Total U.S. Dept. of Health and Human Svcs				<u>\$ 89,232.86</u>	<u>\$ -</u>	<u>\$ -</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>				<u>\$ 89,232.86</u>	<u>\$ -</u>	<u>\$ 2,792,817.66</u>

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Total PT From & Direct Program	<u>Pass-Through To</u>			Expenditures Amount	Total PT To & Expenditures
	Agy./ Univ. #	State Agy. or Univ. Amount	Non-State Entities Amount		
\$ 244,094.70		\$ -	\$ -	\$ 244,094.70	\$ 244,094.70
<u>2,548,722.96</u>				<u>2,548,722.96</u>	<u>2,548,722.96</u>
<u>\$ 2,792,817.66</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,792,817.66</u>	<u>\$ 2,792,817.66</u>
\$ 89,232.86		\$ -	\$ -	\$ 89,232.86	\$ 89,232.86
<u>\$ 89,232.86</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,232.86</u>	<u>\$ 89,232.86</u>
<u>\$ 2,882,050.52</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,882,050.52</u>	<u>\$ 2,882,050.52</u>

**Note 2 - 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	\$ 2,792,817.66
Federal Grant Pass-Through Revenue	<u>89,232.86</u>
Total Pass-Through and Expenditures per Federal Schedule	<u>\$ 2,882,050.52</u>

**Separate Disclosure:**

Federal Revenue on Exhibit IV, but not considered to be Federal Revenue for the Schedule:	
Discretely Presented Proprietary Component Unit - Texas Health Insurance Risk Pool (U/F 0393)	
Entity subject to own audit and not included on Federal Schedule.	\$ 4,878,973.00

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

For the fiscal year ended August 31, 2008

	Insurance Operating Account (0036)	General Revenue Fund (0001)	Subsequent Injury Fund (5101)	Total
<b>COLLECTED BY THE TEXAS DEPARTMENT OF INSURANCE</b>				
<b>GENERAL FUNDS</b>				
<b>ORIGINAL APPROPRIATIONS</b>				
Original Appropriations		\$ 230,926.00		\$ 230,926.00
<b>TOTAL ORIGINAL APPROPRIATIONS</b>		<b>230,926.00</b>		<b>230,926.00</b>
<b>ADDITIONAL APPROPRIATIONS</b>				
Additional Appropriations		\$ 41,929.40		\$ 41,929.40
<b>TOTAL ADDITIONAL APPROPRIATIONS</b>		<b>41,929.40</b>		<b>41,929.40</b>
<b>TAXES</b>				
Fund 0036 - Taxes - Certified Self-Insurers	\$ 1,310,361.04			\$ 1,310,361.04
<b>TOTAL TAXES</b>	<b>1,310,361.04</b>			<b>1,310,361.04</b>
<b>FEDERAL FUNDS</b>				
U.S. Department of Labor	\$ 2,314,266.76	\$ 567,783.76		\$ 2,882,050.52
U.S. Department of Health & Human Services				
From Department of Homeland Security				
<b>TOTAL FEDERAL FUNDS</b>	<b>2,314,266.76</b>	<b>567,783.76</b>		<b>2,882,050.52</b>
<b>LICENSES, FEES AND PERMITS</b>				
Catastrophic Pool Inspection Fees	\$ 10,596.28			\$ 10,596.28
License Fee - Title Insurance Companies	235,440.50			235,440.50
Filing Fees - Life	202,948.75			202,948.75
Filing Fees - Property and Casualty	315,888.70			315,888.70
Filing Fees - Workers' Compensation	25,000.00			25,000.00
Fees - Certified Self-Insurers	1,062,799.21			1,062,799.21
License Fees - Insurance Adjusters and Agents	14,404,148.29	6,054.00		14,410,202.29
Agents Certification and Clearance Letters	256,217.89			256,217.89
Filing Fees - Third Party Administrators	111,071.00			111,071.00
Filing Fees - Risk Retention & Purchasing Groups	12,650.00			12,650.00
Examination Fees - Salaries and Travel Expense	2,847,653.72			2,847,653.72
Examination Fees - Overhead Assessment	10,178,167.02			10,178,167.02
Filing Fees - Policy Approval	440,650.00			440,650.00
Filing Fees - Health Maintenance Organizations	98,619.00			98,619.00
Filing Fees - Insurance Premium Finance	60,685.00			60,685.00
Amusement Ride Safety Inspections	73,083.25			73,083.25
State Fire Marshal Fees	2,328,096.50			2,328,096.50
Workers' Compensation Penalties	1,037,227.50			1,037,227.50
Miscellaneous Certification Fees	8,927.20			8,927.20
Administrative Fees	451,306.57			451,306.57
Conservation Fees	60,800.64			60,800.64
<b>TOTAL LICENSES, FEES, AND PERMITS</b>	<b>34,469,997.02</b>	<b>6,054.00</b>		<b>34,476,051.02</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 - State Treasury**

For the fiscal year ended August 31, 2008

	Insurance Operating Account (0036)	General Revenue Fund (0001)	Subsequent Injury Fund (5101)	Total
<b>SALES OF GOODS AND SERVICES</b>				
Sale of Lists, Bulletins, Rating Data, etc.	\$ 11,541.35			\$ 11,541.35
Miscellaneous Other Sales				
<b>TOTAL SALES OF GOODS AND SERVICES</b>	<u>11,541.35</u>			<u>11,541.35</u>
<b>OTHER REVENUES</b>				
Warrants Voided By Statute of Limitations	\$ 7,250.74			\$ 7,250.74
Reimbursements - Third Party	1,241,501.46			1,241,501.46
Subrogation Recoveries				
Insurance and Damages				
Forfeitures/Breach of Contract				
Other Miscellaneous Governmental Revenue	599.75			599.75
NASFM Grant				
Workers' Compensation Insurance Benefits to State			5,459,472.88	5,459,472.88
Revenue Transfer - Travel Advance	25,000.00			25,000.00
<b>TOTAL OTHER REVENUES</b>	<u>1,274,351.95</u>		<u>5,459,472.88</u>	<u>6,733,824.83</u>
<b>TOTAL GENERAL FUNDS COLLECTIONS</b>	<u>39,380,518.12</u>	<u>846,693.16</u>	<u>5,459,472.88</u>	<u>45,686,684.16</u>
<b>AGENCY FUNDS COLLECTIONS</b>				
State Sales Tax/Discounts		\$ 523.36		\$ 523.36
Viatical Settlement Registration Fees		73,588.40		73,588.40
Utilization Review Fees/ Independent Review Organization		103,664.00		103,664.00
Filing Fees - Continuing Care Facilities		57,402.00		57,402.00
Returned Check Fees		2,890.00		2,890.00
Retaliatory Fees		150.00		150.00
Interest on Local Deposits		125.29		125.29
Fund 0923 - Interest Earned Unclaimed Dividend Trust Account Fund		26,684.46		26,684.46
Judgments (Secured by Court Action)		14,615.82		14,615.82
Penalty In Lieu of Suspension/Cancellation		7,555,860.29		7,555,860.29
Other Miscellaneous Governmental Revenue		1,397.81		1,397.81
SFMO-Fireworks, Educ Safety		64,279.50		64,279.50
License Fees - Insurance Adjusters and Agents		200,095.92		200,095.92
Continuing Education Provider Fees		213,486.00		213,486.00
<b>TOTAL AGENCY FUNDS COLLECTIONS</b>		<u>8,314,762.85</u>		<u>8,314,762.85</u>
<b>TOTAL COLLECTIONS TEXAS DEPARTMENT OF INSURANCE</b>	<u>39,380,518.12</u>	<u>9,161,456.01</u>	<u>5,459,472.88</u>	<u>54,001,447.01</u>

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 - State Treasury**

For the fiscal year ended August 31, 2008

	<u>Insurance Operating Account (0036)</u>	<u>General Revenue Fund (0001)</u>	<u>Subsequent Injury Fund (5101)</u>	<u>Total</u>
<b><u>TRANSFERS IN</u></b>				
<b>From Comptroller of Public Accounts:</b>				
Motor Vehicle Maintenance Tax	\$ 9,775,990.58			\$ 9,775,990.58
Fire and Allied Lines Maintenance Tax	23,129,297.15			23,129,297.15
Workers' Compensation Maintenance Tax	3,086,298.09			3,086,298.09
Casualty Maintenance Tax	6,756,304.65			6,756,304.65
Title Maintenance Fee	2,004,318.50			2,004,318.50
Life/Accident and Health Maintenance Tax	12,281,330.83			12,281,330.83
Third Party Administrator Maintenance Tax	1,101,166.53			1,101,166.53
Health Maintenance Organization Maintenance Tax	3,313,500.83			3,313,500.83
Prepaid Legal Services Maintenance Tax	1,336.14			1,336.14
Annual Statement Filing Fees	231,485.50			231,485.50
Division of Workers' Compensation Maintenance Tax	43,790,866.24			43,790,866.24
Workers' Compensation Research Maint Tax	26,530.30			26,530.30
<b>TOTAL REVENUES TRANSFERRED FROM COMPTROLLER OF PUBLIC ACCOUNTS</b>	<u>105,498,425.34</u>			<u>105,498,425.34</u>
<b>From Other Sources:</b>				
From Local Acct-Cat Pool				
From Catastrophe Reserve Trust Fund	\$ 1,000,000.00			\$ 1,000,000.00
From Sale of Fixed Assets		35,057.50		35,057.50
From Commission on Fire Protection	229,000.00			229,000.00
<b>TOTAL REVENUES FROM TRANSFERS IN</b>	<u>1,229,000.00</u>	<u>35,057.50</u>		<u>1,264,057.50</u>
<b>TOTAL TRANSFERS IN</b>	<u>106,727,425.34</u>	<u>35,057.50</u>		<u>106,762,482.84</u>
<b>TOTAL REVENUES/TRANSFERS IN</b>	<u>\$ 146,107,943.46</u>	<u>\$ 9,196,513.51</u>	<u>\$ 5,459,472.88</u>	<u>\$ 160,763,929.85</u>

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

1999 - 2008

<u>FISCAL YEAR</u>	<u>TAXES COLLECTED</u>	<u>LICENSES &amp; FEES</u>	<u>OTHER REVENUES</u>	<u>TOTAL</u>
1999	43,473,181.00	25,142,085.00	5,539,619.00	74,154,885.00
2000	42,208,839.00	29,316,267.00	3,032,322.00	74,557,428.00
2001	45,486,357.00	32,350,259.00	4,280,123.00	82,116,739.00
2002	52,686,530.55	32,541,680.92	20,369,383.21	105,597,594.68
2003	55,759,840.69	34,507,376.73	4,056,802.81	94,324,020.23
2004	34,257,607.00	38,820,609.57	10,632,851.92	83,711,068.49
2005	31,636,242.79	35,193,189.82	7,307,232.49	74,136,665.10
2006	105,523,190.31	44,514,896.85	106,591,952.01	256,630,039.17
2007	106,235,978.67	41,481,113.57	15,873,188.81	163,590,281.05
2008	106,577,824.24	35,423,092.34	18,532,087.27	160,533,003.85

Note: Revenues collected by and/or transferred to the Texas Department of Insurance and deposited to the State Treasury are included on this schedule.



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**Texas Department of Insurance**

333 Guadalupe Austin, Texas 78701