Texas Property and Casualty Insurance Guaranty Association

Financial Report with Additional Information

December 31, 2014

Texas Property and Casualty Insurance Guaranty Association

Contents

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Independent Auditor's Report

To the Board of Directors
Texas Property and Casualty Insurance
Guaranty Association

We have audited the accompanying financial statements of Texas Property and Casualty Insurance Guaranty Association (the "Association"), which comprise the balance sheet as of December 31, 2014 and 2013 and the related statements of income and comprehensive income, equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Property and Casualty Insurance Guaranty Association as of December 31, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

April 24, 2015

Texas Property and Casualty Insurance Guaranty Association

Balance Sheet

	December 31, 2014	December 31, 2013
Assets		
Assets		
Cash and cash equivalents	$ 21,896,384	$ 47,290,122
Investments in debt securities	442,226,033	413,524,599
Accounts receivable - Other	34,081	397
Collateral from securities lending	101,259,266	156,133,246
Receivable for securities	198,551	-
Accrued interest income	2,347,350	2,168,336
Loans receivable - Net of allowance for uncollectible loans of $254,291,186 and $245,064,425 in 2014 and 2013, respectively	-	-
Property and Equipment - Net	433,548	500,360
Total assets	**$ 568,395,213**	**$ 619,617,060**
Liabilities and Deficit		
Liabilities		
Accounts payable and accrued expenses	$ 956,507	$ 1,476,199
Obligations under securities lending	101,259,266	156,133,246
Unpaid claims and claims adjustment expenses	495,137,785	502,584,490
Early access distributions	27,078,740	25,184,797
Total liabilities	624,432,298	685,378,732
Deficit	(56,037,085)	(65,761,672)
Total liabilities and deficit	**$ 568,395,213**	**$ 619,617,060**

See Notes to Financial Statements.

Texas Property and Casualty Insurance Guaranty Association

Statement of Income and Comprehensive Income

	Year Ended December 31, 2014	Year Ended December 31, 2013
Revenue		
Distributions	$ 35,585,025	$ 18,306,882
Net investment income	7,661,454	7,844,676
Realized capital gains - Net	2,031,788	1,459,999
Total revenue	45,278,267	27,611,557
Expenses		
Claims incurred	37,835,400	133,815,429
Subrogation and salvage recoveries	(4,712,341)	(2,826,144)
Operating expenses	5,924,796	6,051,460
Loss on disposal of asset	-	4,626
Total operating expenses	39,047,855	137,045,371
Net Income (Loss)	6,230,412	(109,433,814)
Other Comprehensive (Loss) Income		
Unrealized holding gains (losses) on securities arising during the period	5,525,963	(13,375,570)
Reclassification adjustment for gains included in net income	(2,031,788)	(1,459,999)
Total other comprehensive income (loss)	3,494,175	(14,835,569)
Comprehensive Income (Loss)	**$ 9,724,587**	**$ (124,269,383)**

Texas Property and Casualty Insurance Guaranty Association

Statement of Equity (Deficit)

	Unassigned Funds	Accumulated Other Comprehensive Income	Equity (Deficit)
Balance - January 1, 2013	$ 43,498,823	$ 15,008,888	$ 58,507,711
Net loss	(109,433,814)	-	(109,433,814)
Other comprehensive loss	-	(14,835,569)	(14,835,569)
Balance - December 31, 2013	(65,934,991)	173,319	(65,761,672)
Net income	6,230,412	-	6,230,412
Other comprehensive income	-	3,494,175	3,494,175
Balance - December 31, 2014	**$ (59,704,579)**	**$ 3,667,494**	**$ (56,037,085)**

Texas Property and Casualty Insurance Guaranty Association

Statement of Cash Flows

	Year Ended	
	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities		
Net income (loss)	$ 6,230,412	$ (109,433,814)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	156,687	184,103
Loss on disposal of property and equipment	-	4,626
Net amortization of premiums and discounts on debt securities	1,770,820	1,417,998
Realized capital gains - Net	(2,031,788)	(1,459,999)
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable - Other	(33,684)	3,006
Accrued interest income	(179,014)	(170,047)
Unpaid claims and claims adjustment expenses	(7,446,705)	100,198,537
Accounts payable and accrued expenses	(519,692)	466,639
Early access distributions	1,893,943	(2,026,138)
Net cash used in operating activities	(159,021)	(10,815,089)
Cash Flows from Investing Activities		
Purchase of property and equipment	(89,875)	(103,539)
Purchases of investments	(646,989,920)	(692,567,198)
Proceeds from sales and maturities of investments in available-for-sale securities	621,845,078	701,898,880
Net cash (used in) provided by investing activities	(25,234,717)	9,228,143
Net Decrease in Cash and Cash Equivalents	(25,393,738)	(1,586,946)
Cash and Cash Equivalents - Beginning of year	47,290,122	48,877,068
Cash and Cash Equivalents - End of year	**$ 21,896,384**	**$ 47,290,122**

Note 1 - Nature of Business and Significant Accounting Policies

The Texas Property and Casualty Insurance Guaranty Association (the "Association") is a nonprofit organization formed under the Texas Property and Casualty Insurance Guaranty Act (the "Act"). The Association was formed to protect holders of covered claims, contracts of reinsurance, assumption of liabilities, or other insurance related items arising from insolvent insurance companies within the state of Texas.

Membership in the Association is mandatory for any insurance company authorized in the state of Texas to transact any kind of insurance business to which the Act applies. Membership assessments are made by the board of directors of the Association based on estimates of amounts necessary to provide funds to carry out the purpose of the Act with respect to impaired insurers. Any amount in excess of guaranty obligations and continuing expenses of the Association may be refunded by an equitable method at the discretion of the board of directors. If the maximum assessment and the Association's other assets are insufficient in a year to make all necessary payments, the money available shall be prorated and the Association shall pay the unpaid portion as soon as money becomes available.

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the financial statements include investment valuation, allowance for uncollectible loans and unpaid claims and claims adjustment expenses.

Cash and Cash Equivalents - Cash consists of demand accounts and cash equivalents include securities maturing within three months or less at the time of acquisition or amounts readily convertible to cash. The Association's cash equivalents consist of money market funds reported at fair value.

Early Access Distributions - Early access distributions represent distributions from receiverships in excess of claims and claims adjustment expenses paid for the specific estate. These distributions are used to fund future claims and claims adjustment expense payments.

Investments - Debt securities purchased to be held for an indefinite period of time are classified as available-for-sale securities. Available-for-sale securities are reported at fair value with unrealized gains and losses reported in other comprehensive income.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Amortization of premiums and accretion of discounts on debt securities are determined using the effective interest method. Interest is recognized on an accrual basis. Realized capital gains and losses are determined using the specific identification method and include gains and losses on investment sales in addition to write-downs in value due to other-than-temporary declines in value, if any. Inflation adjustments on Treasury Inflation-Protected Securities (TIPS) are recognized as unrealized gains until such time as they are paid, at which time they are recognized as realized gains. Deflation adjustments are only recognized to the extent the inflation factor is not reduced to an amount less than 1.00 as the Association is guaranteed (by the U.S. government) to receive at least the par amount of the securities at maturity.

The Association's investments are exposed to various risks, such as market risk, credit, and overall market volatility. Due to the level of risk associated with certain securities, it is at least reasonably possible that changes in the value of securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Other-than-temporary Impairment - The Association's available-for-sale investments are subject to a periodic impairment review. Investments are considered to be impaired when the fair value of the security is less than its amortized cost. Impairments are then assessed to determine whether they are other than temporary.

When an other-than-temporary impairment of a debt security has occurred, the entire loss is recognized in earnings if the Association intends to sell the security or it is more likely than not that the Association will be required to sell the security before recovery of its amortized cost. If the Association does not intend to sell the security before recovery of its amortized cost, the portion of the other than temporary impairment related to credit loss is recognized in earnings and the amount of other-than-temporary impairment related to all other factors is recognized in other comprehensive income. Any subsequent recoveries in fair value of available-for-sale securities are recognized in other comprehensive income.

Securities Lending Arrangements - The Association engages in transactions whereby certain securities in its portfolio are loaned to other institutions, generally for a short period of time. The Association enters into securities lending transactions and recognizes the cash collateral received and the corresponding liability to return the cash collateral. Cash received for collateral is reinvested in various short-term investments.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - The Association's policy is to depreciate or amortize the cost of property and equipment over the estimated useful lives of the assets using the straight-line method. The cost of leasehold improvements is amortized over the shorter of the estimated useful life of the asset at inception or the remaining lease term. The cost of maintenance and repairs is charged to expenses when incurred.

Unpaid Claims and Claims Adjustment Expenses - Unpaid claims and claims adjustment expenses represent the estimated net cost of all reported claims incurred through December 31, 2014. The unpaid claims and claims adjustment expenses are estimated using past experience and statistical analysis. These estimates are based upon the facts in each case and the Association's experience with similar cases. Establishing amounts for claims and claims adjustment expenses is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the amount that is needed in establishing the liability. Although considerable variability is inherent in such estimates, management believes the unpaid claims and claim adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are reflected in current operations as the need for such adjustments become apparent.

Revenue Recognition - Revenue is recognized when it is realized or realizable and earned. The Association considers assessment revenue realized or realizable when assessed to the members of the Association. There were no such assessments in 2014 and 2013. Distributions from receiverships are recognized when received by the Association to the extent they are not in excess of claims and claims adjustment expense paid for the specific estate (early access distributions).

Loans Receivables/Allowance for Uncollectible Loans - Loans receivable represent claims and claims adjustment expenses made on behalf of receiverships, for which a distribution has not been received. Due to the inherent uncertainty related to the collection of loans receivable, the Association has established an allowance for uncollectible loans equal to the balance of loans receivable as of December 31, 2014 and 2013. The Association writes off a loan receivable and its related allowance when a receivership is closed by the state. Repayments of loans receivable are recorded as revenue when received from receiverships.

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

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Other Comprehensive (Loss) Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, including unrealized gains and losses on available-for-sale securities, are reported as a direct adjustment to the deficit section of the balance sheet. These items, along with net income (loss), are considered components of comprehensive income.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including April 24, 2015, which is the date the financial statements were available to be issued.

Note 2 - Investment Income

Investment income is composed of the following for the years ended December 31, 2014 and 2013:

	2014	2013
Investment income:		
Debt securities	$ 8,186,318	$ 8,367,801
Cash and cash equivalents	3,701	4,313
Gross investment income	8,190,019	8,372,114
Investment expenses	(528,565)	(527,438)
Net investment income	$ 7,661,454	$ 7,844,676

Note 3 - Investments in Debt Securities

The details of the Association's investments in debt securities are as follows at December 31:

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury	$ 170,257,857	$ 1,434,302	$ (131,834)	$ 171,560,325
U.S. government agencies	33,053,736	298,178	(427)	33,351,487
Corporate	97,014,846	632,125	(337,665)	97,309,306
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	74,695,789	966,783	(156,354)	75,506,218
Municipal	63,218,990	1,539,819	(260,112)	64,498,697
Total	$ 438,241,218	$ 4,871,207	$ (886,392)	$ 442,226,033

	2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury	$ 181,415,408	$ 1,530,521	$ (1,667,309)	$ 181,278,620
U.S. government agencies	33,057,183	1,107,494	(1,447)	34,163,230
Corporate	56,909,733	315,711	(790,761)	56,434,683
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	71,389,448	1,042,742	(590,779)	71,841,411
Municipal	66,933,425	723,128	(1,442,106)	66,214,447
Treasury inflation protected securities	3,648,958	-	(56,750)	3,592,208
Total	$ 413,354,155	$ 4,719,596	$ (4,549,152)	$ 413,524,599

Note 3 - Investment in Debt Securities (Continued)

The amortized cost and fair value of the Association's investments in debt securities as of December 31, 2014 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Due to uncertainties related to prepayments of government RMBS, the Association does not project future cash flows for these securities.

	Amortized Cost	Fair Value
Due in one year or less	$ 39,764,550	$ 39,911,528
Due after one year through five years	256,296,183	257,729,509
Due after five years through 10 years	64,248,843	65,568,841
Due after 10 years	3,235,853	3,509,937
U.S. government RMBS	74,695,789	75,506,218
Total	$ 438,241,218	$ 442,226,033

During December 31, 2014 and 2013, respectively, sales proceeds and gross realized gains and loss on debt securities were as follows:

	2014	2013
Sales proceeds	$ 581,013,479	$ 672,084,880
Gross realized gains	2,216,123	2,230,577
Gross realized losses	(184,335)	(770,578)
Net realized gain	$ 2,031,788	$ 1,459,999

As of December 31, 2014 and 2013, the portfolio included 126 and 148 securities, respectively, that were in an unrealized loss position. Unrealized losses on securities were predominately due to changes in interest rates in the Association's U.S. Treasury and government securities, corporate, mortgage-backed U.S. government RMBS and municipal securities. No other-than-temporary losses were recognized for any of the Association's investment securities during 2014 and 2013.

Note 3 - Investment in Debt Securities (Continued)

The following table shows the gross unrealized losses and fair value of the Association's investments with unrealized losses that are not deemed to be other-than-temporarily impaired. The amounts are segregated into those investments that have been in a continuous unrealized loss position for 12 months or greater and those in a continuous loss position for less than 12 months as of December 31, 2014 and December 31, 2013.

	2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury	$ 42,201,456	$ (63,106)	$ 29,922,587	$ (68,728)	$ 72,124,043	$ (131,834)
U.S. government agencies	-	-	147,672	(427)	147,672	(427)
Corporate	24,231,557	(98,142)	19,552,478	(239,523)	43,784,035	(337,665)
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	5,238,842	(29,544)	23,293,143	(126,810)	28,531,985	(156,354)
Municipal	1,724,054	(8,926)	21,014,251	(251,186)	22,738,305	(260,112)
Total	$ 73,395,909	$ (199,718)	$ 93,930,131	$ (686,674)	$ 167,326,040	$ (886,392)

	2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
U.S. Treasury	$ 81,280,732	$ (1,667,309)	$ -	$ -	$ 81,280,732	$ (1,667,309)
U.S. government agencies	-	-	286,335	(1,447)	286,335	(1,447)
Corporate	73,932,336	(790,761)	-	-	73,932,336	(790,761)
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	88,228,138	(564,194)	404,611	(26,585)	88,632,749	(590,779)
Municipal	61,927,369	(964,072)	7,869,319	(478,034)	69,796,688	(1,442,106)
Treasury inflation protected securities	4,504,861	(56,750)	-	-	4,504,861	(56,750)
Total	$ 309,873,436	$ (4,043,086)	$ 8,560,265	$ (506,066)	$ 318,433,701	$ (4,549,152)

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Association has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Association's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following tables present information about the Association's assets measured at fair value on a recurring basis at December 31, 2014 and 2013 and the valuation techniques used by the Association to determine those fair values.

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Debt securities:				
U.S. Treasury	$ -	$ 171,560,325	$ -	$ 171,560,325
U.S. government agencies	-	30,937,295	2,414,192	33,351,487
Corporate	-	97,309,306	-	97,309,306
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	-	75,392,603	113,615	75,506,218
Municipal	-	64,498,697	-	64,498,697
Total debt securities	-	439,698,226	2,527,807	442,226,033
Securities lending collateral - Short-term investments	-	101,259,266	-	101,259,266
Cash equivalents - Money market funds	7,259,590	-	-	7,259,590
Total assets	$ 7,259,590	$ 540,957,492	$ 2,527,807	$ 550,744,889

Note 4 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2013
Debt securities:				
U.S. Treasury	$ -	$ 181,278,620	$ -	$ 181,278,620
U.S. government agencies	-	31,561,848	2,601,382	34,163,230
Corporate	-	56,434,683	-	56,434,683
Mortgage-backed U.S. government RMBS (primarily FHLMC and FNMA pools)	-	71,408,387	433,024	71,841,411
Municipal	-	66,214,447	-	66,214,447
Treasury inflation protected securities	-	3,592,208	-	3,592,208
Total debt securities	-	410,490,193	3,034,406	413,524,599
Securities lending collateral - Short-term investments	-	156,133,246	-	156,133,246
Cash equivalents - Money market funds	35,783,188	-	-	35,783,188
Total assets	$ 35,783,188	$ 566,623,439	$ 3,034,406	$ 605,441,033

Fair values of debt securities are generally determined by a third-party valuation source. The Association performs periodic valuations of the fair value sourced from the independent pricing services. Such validation principally includes sourcing security prices from quoted market prices and other independent pricing services. The validation process provides the Association with information as to whether the volume and level of activity for a security has significantly decreased and assists in identifying transactions that are not orderly. Depending on the result of the validation, additional information may be gathered from other market participants to support the fair value measurements. A determination is made as to whether adjustments to the observable inputs are necessary as a results of investigation and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing services.

Note 4 - Fair Value Measurements (Continued)

The following summarizes the valuation methodology used in determining fair value measurements of the significant classes of the Association's asset and liabilities measured at fair value on a recurring basis:

Level 1 Measurements

- *Money market funds* - The fair value of these funds is based on unadjusted prices for the identical security in active markets that the Association can access.

Level 2 Measurements

- *U.S. Treasury, U.S. government agencies,* corporate *and treasury inflation protected securities* - The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, and credit spreads.
- *U.S. government RMBS (primarily FHLMC and FNMA pools)* - The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, prepayment speeds, collateral performance, and credit spreads.
- *Municipal* - The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active. Other characteristics used in this process include section/subsector of issuance, credit quality, and structural elements (coupon, maturity, redemption provisions, etc.).
- *Securities lending collateral* - The primary inputs to the valuation of securities, which consist of short-term investments, include quoted prices for identical or similar assets in markets that are not active.

Level 3 Measurements

The following summarizes significant Level 3 inputs by security type:

- *U.S. government agencies* - Primary inputs to the valuation are nonbinding broker quotes. Opinions of market participants, when available, are also used as inputs to pricing models. This is different from two-sided market data (noted above) in that dealer quotes are just bid quotes whereas two-sided markets provide bid and ask quotes. Other information about markets, sectors, and individual issuers (i.e., credit events, benchmark curves, etc.) that is received through media sources may also be used as a factor in the determination of prices. For example, credit events that could affect an issue or issuer are considered in the price of a security.

Note 4 - Fair Value Measurements (Continued)

- *U.S. government RMBS (primarily FHLMC and FNMA pools)* - Primary inputs to the valuation are nonbinding broker quotes and quotes from pricing vendors for identifiable securities or similar securities in markets that exhibit less liquidity relative to those markets supporting Level 2 fair value measurements. Other information about markets, sectors, and individual issuers (i.e., credit events, benchmark curves, etc.) that is received through media sources may also be used as a factor in the determination of prices. For example, credit events that could affect an issue or issuer are considered in the price of a security.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013 are as follows:

	U.S. Government Agencies	U.S. Government RMBS
Balance at December 31, 2013	$ 2,601,382	$ 433,024
Purchases, issuances, sales, and settlements:		
Purchases	-	113,615
Sales and maturities	(187,841)	(433,024)
Amortization	(3,175)	-
Total realized gains	3,826	-
Balance at December 31, 2014	$ 2,414,192	$ 113,615

	U.S. Government Agencies	Corporate	U.S. Government RMBS
Balance at January 1, 2013	$ 4,003,387	$ 176,484	$ 2,247,049
Purchases, issuances, sales, and settlements:	-	-	-
Sales and maturities	(1,376,744)	(176,484)	(1,814,025)
Amortization	(23,814)	-	-
Total unrealized losses	(1,447)	-	-
Balance at December 31, 2013	$ 2,601,382	$ -	$ 433,024

Realized gains and losses of $2,031,788 and $1,459,999 for the years ended December 31, 2014 and 2013, respectively, are reported in the revenue section in the statement of operations.

Note 4 - Fair Value Measurements (Continued)

Fair value of debt securities are generally determined by a third-party valuation source. The Association performs periodic validations of the fair value sourced from the independent pricing services. Such validation principally includes sourcing security prices from other independent pricing services or broker quotes. The validation process provides the Association with information as to whether the volume and level of activity for a security has significantly decreased and assists in identifying transactions that are not orderly. Depending on the results of the validation, additional information may be gathered from other market participants to support the fair value measurements. A determination will be made as to whether adjustments to the observable inputs are necessary as a result of investigations and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing services.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2014	2013	Depreciable Life - Years
Telephone systems	$ 78,817	$ 78,817	10
Furniture and equipment	926,152	858,069	10
Computer software and equipment	1,796,360	1,774,568	5
Leasehold improvements	306,593	306,593	Life of Lease
Total cost	3,107,922	3,018,047	
Accumulated depreciation	2,674,374	2,517,687	
Net property and equipment	$ 433,548	$ 500,360	

Depreciation and amortization expense was $156,687 and $184,103 in 2014 and 2013, respectively

Note 6 - Membership Assessments

The Association is authorized by the Texas Insurance Code, Chapter 462, Subchapter D, to assess member insurers in amounts necessary to pay both claims and administrative expenses of the Association. The current annual assessment ability is estimated below using the applicable 2013 premium information available from the Texas Department of Insurance and the Texas Comptroller's Office:

	Premium Base	Assessment Capability
Line of business:		
Automobile	$ 17,528,233,551	$ 350,564,671
Other lines	17,269,570,363	345,391,407
Workers' compensation	3,602,985,598	72,059,712
Total	$ 38,400,789,512	$ 768,015,790

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

In the event that management believes the liabilities related to previous assessments have been successfully rundown, refunds of prior member assessments will be redistributed back to members based upon the percentage of the member's original assessment. The refund assessment redistributed to members during 2014 and 2013 was $0.

Note 7 - Unpaid Claims and Unpaid Claims Adjustment Expense

The Association established liabilities for unpaid claims and claim adjustment expenses on reported and unreported claims of insured losses. These liabilities are based on management's estimates of the ultimate cost to settle all claims incurred. The establishment of appropriate liabilities is an inherently uncertain process. Changes in prior year liability estimates, which may be material, are reflected in the results of operations in the period such changes are determined to be needed.

Note 7 - Unpaid Claims and Unpaid Claims Adjustment Expense (Continued)

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2014	2013
Balance as of January 1	$ 502,584,490	$ 402,385,953
Incurred related to:		
Current year	47,167,189	149,146,570
Prior year	(9,331,789)	(15,331,141)
Total incurred	37,835,400	133,815,429
Paid related to:		
Current year	1,536,742	7,044,671
Prior year	43,745,363	26,572,221
Total paid	45,282,105	33,616,892
Balance as of December 31	$ 495,137,785	$ 502,584,490

The liability for unpaid claims and claims adjustment expenses consists of estimates to settle claims of insolvent insurers. Once a member insurer becomes insolvent and is designated as impaired by the Commissioner of Insurance, the Association becomes responsible for processing its "covered claims." Claim files from the insolvent company are forwarded to the Association for claim handling and adjusting. Losses incurred related to the current year increased by approximately $47 million as a result of two new member insurer insolvencies designated as impaired by the Commissioner of Insurance during 2014. The Association believes it has, or has access to through its assessment authority, sufficient resources to fulfill its responsibilities with respect to member insurer insolvencies.

Losses incurred related to prior years decreased by approximately $9 million in 2014 and as a result of favorable development. Losses incurred related to prior years decreased by approximately $15 million in 2013 as a result of favorable development.

Note 7 - Unpaid Claims and Unpaid Claims Adjustment Expense (Continued)

As noted in Note 6, the Association has the authority to assess members as necessary in subsequent years to meet its responsibility to pay claims of impaired companies. Assessment ability and recorded claims liability as of December 31, 2014 are as follows:

Line of Business	Claims Payable	Annual Assessment Capability
Automobile	$ 24,558,803	$ 350,564,671
Other lines	6,352,204	345,391,407
Workers' compensation	438,842,443	72,059,712
Loss adjustment expenses	25,384,335	No Limit
Total	$ 495,137,785	

Note 8 - Employee Benefit Plans

The Association has established a 401(a) defined contribution profit-sharing retirement plan which is open to all employees. The Association matches a portion of the employee's contributions based on a percentage of salary contributed by participants in the plan and may also contribute a discretionary amount for profit sharing. The Association's total contribution for 2014 and 2013 was $201,647 and $204,756, respectively.

Note 9 - Operating Leases

The Association leases office space under a noncancelable operating lease agreement that expired in November 2014. In November 2014, the Association entered into a new lease agreement for the period from December 1, 2014 through November 30, 2024. Rental expense was $439,696 and $394,420 for the years ended December 31, 2014 and 2013, respectively.

Note 9 - Operating Leases (Continued)

Future minimum annual commitments under this operating lease are as follows:

Years Ending December 31	Amount
2015	$ 530,950
2016	532,846
2017	553,705
2018	555,601
2019	576,460
Thereafter	2,970,792
Total	$ 5,720,354

Note 10 - Loans Receivable and Early Access Distributions

Loans receivable consist of advances to, claim payments made, and expenses paid on behalf of impaired insurers. Early access distributions consist of distributions from receiverships. An allowance is made for all loans receivable, which makes all loans expensed as claims are paid. Any repayments of loans to the Association are recorded as revenue when received. Loans receivable by line of business as of December 31, 2014 and 2013 are as follows:

	2014	2013
Administrative	$ 1,595,012	$ (7,046,410)
Automobile	26,731,273	20,697,624
Other lines	100,684,141	107,857,569
Workers' compensation	125,280,760	123,555,642
Total	254,291,186	245,064,425
Less allowance for uncollectible loans	(254,291,186)	(245,064,425)
Net loans receivable	$ -	$ -

Note 10 - Loans Receivable and Early Access Distributions (Continued)

The following table represents collections on the loans receivable over the last 10 years. The variability of collection by year is significant and is affected by the composition of open estates as of the balance sheet date. Accordingly, and recognizing also the difficulty in estimation of collectible amounts in a given year, the Association elected to establish an uncollectible amount equivalent to the loan balance. This allows the Association to recognize revenue accurately per annum as distributions are received from the receivership estates which is consistent with revenue recognition criteria as required by GAAP.

	Receivable at Start of Year	Distributions/ Recoveries	Percentage
2014	$ 245,064,425	$ 40,297,366	16.4%
2013	230,831,989	21,133,024	9.2%
2012	406,913,234	21,300,753	5.2%
2011	618,998,415	30,978,093	5.0%
2010	677,449,619	93,804,894	13.8%
2009	702,109,895	65,754,480	9.4%
2008	697,577,144	43,667,925	6.3%
2007	672,519,076	27,232,245	4.0%
2006	601,491,875	55,365,660	9.2%
2005	574,602,388	34,488,393	6.0%

Note 11 - Custodial Credit Risk of Bank Deposits

The Association maintains cash balances at various financial institutions. Cash accounts are insured up to $250,000 per depositor. As of December 31, 2014 and 2013, the Association's cash balances totaled $14,636,794 and $11,504,822, respectively. At various times during the year, the Association's cash balances are in excess of FDIC insurance coverage. Management believes the Association's cash balances are held in high quality institutions, and therefore, the Association's credit risk is at an acceptable level.

Note 12 - Concentrations

Most of the Association's business activity, assessment revenue, and advances are derived from the insurance industry in the state of Texas. At year end, all of the Association's loans receivable are from companies that are operating or have operated in Texas.

Note 13 - Securities Lending

The Association participates in a securities lending program with Northern Trust, its custodian, primarily for its U.S. Treasury and Agency obligations. These securities are loaned in exchange for collateral, which is in the form of cash or U.S. Treasury, and U.S. government agency bond securities. Collateral under the securities lending program is maintained at a minimum of 102 percent of the market value of the securities loaned. Both the collateral and the securities loaned are marked-to-market on a daily basis so that all loaned securities are more than fully collateralized at all times. Collateral received is invested in a segregated account managed by Northern Trust.

Although the Association's securities lending activities are collateralized as described above, and although the terms of the securities lending agreement with Northern Trust require Northern Trust to comply with government rules and regulations related to the lending securities held by the Association, the securities lending program involves both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize its loan upon a sudden material change in the fair value of the loaned securities or the collateral, or that Northern Trust's investment of collateral received from the borrowers of the Association's securities may be subject to unfavorable market fluctuations. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

At December 31, 2014 and 2013, the fair value of securities loaned in the portfolio was $98,740,847 and $152,826,122, respectively. At December 31, 2014 and 2013, collateral held for securities lending was $101,259,266 and $156,133,246, respectively. Collateral received consists of cash. The value of the collateral held and a corresponding liability to return the collateral have been reported on the accompanying balance sheet.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
Texas Property and Casualty Insurance
Guaranty Association

We have audited the financial statements of Texas Property and Casualty Insurance Guaranty Association as of and for the years ended December 31, 2014 and 2013 and have issued our report thereon dated April 30, 2015, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

April 24, 2015

Texas Property and Casualty Insurance Guaranty Association

Schedule of Operating Expenses

	Year Ended December 31	
	2014	2013
Employment expenses	$ 4,371,269	$ 4,471,218
Employee relations	6,196	5,725
Education and staff development	55,508	38,030
Contract labor	35,887	11,653
Legal fees	72,499	57,850
Audit fees	45,948	41,420
Consulting	-	50,200
Leasehold improvements	3,346	5,300
Office rent and overhead	439,696	448,369
Insurance - General	56,615	49,066
Furniture and equipment	21,881	34,951
Equipment rental	1,813	1,741
Computer systems	352,171	312,022
Telephone and telecommunications	24,381	23,353
Office supplies	31,832	33,015
Postage	46,981	74,618
Printing	11,587	14,162
Travel expenses	25,143	32,170
Professional meetings	4,544	6,636
Reference materials	12,805	13,368
Subscriptions and professional dues	138,094	131,207
Taxes - Property	9,913	11,283
Depreciation and amortization expense	156,687	184,103
Total operating expenses	**$ 5,924,796**	**$ 6,051,460**