Financial Statements
and Other Financial Information

Texas Property and Casualty Insurance Guaranty Association

Years ended December 31, 2023 and 2022
with Report of Independent Auditors

Thomas Howell
Ferguson P.A.
Certified Public Accountants

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Opinion

We have audited the financial statements of the Texas Property and Casualty Insurance Guaranty Association (the Association), which comprise the balance sheets as of December 31, 2023 and 2022, the related statements of comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Association as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

In our report dated April 26, 2023, we expressed an opinion that the 2022 financial statements did not fairly present the financial position, results of operations, and cash flows of the Association in accordance with accounting principles generally accepted in the United States of America because of one departure from such principles. Accounting principles generally accepted in the United States of America require the liability for unpaid losses and loss adjustment expenses to include a provision for losses and loss adjustment expenses incurred but not reported. We were unable to obtain sufficient and appropriate audit evidence about a provision for losses and loss adjustment expenses incurred but not reported as of December 31, 2022, because the Association had not prepared or obtained a calculation for losses and loss adjustment expenses incurred but not reported. As described in Note 13, the Association has restated its 2022 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the restated 2022 financial statements, as presented herein, is different from that expressed in our previous report.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of general and administrative expenses are presented for purposes of additional analysis and are 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 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 to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Thomas Howell Ferguson P.A.

Tampa, Florida
March 28, 2024

Texas Property and Casualty Insurance Guaranty Association

Balance Sheets

	December 31, 2023	December 31, 2022 (restated)
Assets		
Cash and cash equivalents	**$ 95,543,125**	$ 37,403,313
Investments	**416,820,204**	419,897,373
Assessments receivable	**1,572,317**	2,632,825
Receivable for securities	**25,595**	-
Accrued interest income	**3,246,161**	2,906,406
Distributions receivable, net of allowance	**-**	-
Property and equipment, net	**212,823**	235,950
Collateral from securities lending	**95,426,018**	62,434,265
Other assets	**568,474**	1,226,586
Total assets	**$ 613,414,717**	$ 526,736,718
Liabilities and equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	**$ 317,254,558**	$ 376,823,353
Return premium payable	**1,503,824**	4,150,234
Payable for securities	**-**	1,292,071
Accounts payable and accrued expenses	**1,732,289**	2,511,440
Excess estate distributions	**41,380,994**	44,378,805
Obligations under securities lending	**95,426,018**	62,434,265
Total liabilities	**457,297,683**	491,590,168
Equity	**156,117,034**	35,146,550
Total liabilities and equity	**$ 613,414,717**	$ 526,736,718

See accompanying notes.

Texas Property and Casualty Insurance Guaranty Association

Statements of Comprehensive Income (Loss)

	Years ended December 31, 2023	2022 *(restated)*
Revenues:		
Estate distributions	**$ 38,435,559**	$ 27,385,401
Assessments	**109,752,535**	74,502,530
Total revenues	**148,188,094**	101,887,931
Expenses:		
Losses and loss adjustment expenses paid	**85,383,198**	78,439,390
Change in reserves for unpaid losses and loss adjustment expenses	**(59,568,793)**	728,618
Subrogation and salvage recoveries	**(1,429,535)**	(1,439,742)
Returned premium	**18,564,262**	47,347,420
General and administrative expenses	**6,974,060**	6,547,307
Total expenses	**49,923,192**	131,622,993
Net investment income	**14,203,709**	9,461,184
Net realized capital losses	**(6,204,603)**	(11,044,172)
Net income (loss)	**106,264,008**	(31,318,050)
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities	**14,706,476**	(34,579,835)
Total comprehensive income (loss)	**$ 120,970,484**	$ (65,897,885)

See accompanying notes.

Texas Property and Casualty Insurance Guaranty Association

Statements of Changes in Equity

Years ended December 31, 2023 and 2022

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance as of December 31, 2021	$ 120,650,244	$ 4,992,489	$ 125,642,733
Correction of an error	(24,598,298)	-	(24,598,298)
Balance as of December 31, 2021 *(restated)*	96,051,946	4,992,489	101,044,435
Net loss	(31,318,050)	-	(31,318,050)
Other comprehensive loss	-	(34,579,835)	(34,579,835)
Balance as of December 31, 2022 *(restated)*	**64,733,896**	**(29,587,346)**	35,146,550
Net income	**106,264,008**	**-**	**106,264,008**
Other comprehensive income	**-**	**14,706,476**	**14,706,476**
Balance as of December 31, 2023	**$ 170,997,904**	**$ (14,880,870)**	**$ 156,117,034**

See accompanying notes.

Texas Property and Casualty Insurance Guaranty Association

Statements of Cash Flows

	Years ended December 31,	
	2023	**2022**
		(restated)
Operating activities		
Net income (loss)	**$ 106,264,008**	$ (31,318,050)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	**58,608**	57,764
Net realized capital losses	**6,204,603**	11,044,172
Changes in operating assets and liabilities:		
Assessments receivable	**1,060,508**	(1,906,944)
Accrued interest income	**(339,755)**	(900,893)
Other assets	**658,112**	(714,516)
Unpaid losses and loss adjustment expenses	**(59,568,795)**	728,620
Return premium payable	**(2,646,410)**	2,347,724
Accounts payable and accrued expenses	**(779,151)**	1,372,089
Excess estate distributions	**(2,997,811)**	(3,026,449)
Net cash and cash equivalents provided by (used in) operating activities	**47,913,917**	(22,316,483)
Investing activities		
Purchase of property and equipment	**(35,481)**	(10,377)
Purchases of investments	**(146,716,499)**	(261,017,388)
Proceeds from sales and maturities of investments	**156,977,875**	260,596,222
Net cash and cash equivalents provided by (used in) investing activities	**10,225,895**	(431,543)
Net increase (decrease) in cash and cash equivalents	**58,139,812**	(22,748,026)
Cash and cash equivalents at beginning of year	**37,403,313**	60,151,339
Cash and cash equivalents at end of year	**$ 95,543,125**	$ 37,403,313

See accompanying notes.

1. Organization and Significant Accounting Policies

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 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 Accounting

The financial statements of the Association are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with financial institutions and deposits in highly-liquid money market funds with original maturities of three months or less. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor, per FDIC-insured financial institution. Bank account balances, at times, may exceed federally-insured limits. The Association has not experienced any credit losses in its cash and cash equivalents and management has not established any allowance for credit losses, against the Association's cash and cash equivalents, at December 31, 2023 and 2022.

1. Organization and Significant Accounting Policies (continued)

Excess Estate Distributions

Excess estate distributions represent distributions from receiverships in excess of losses and loss adjustment expenses paid for the specific estate. These distributions are used to fund future losses and loss adjustment expense payments.

Investments

Investments consist of fixed-maturity securities and are classified as either held-to-maturity, available-for-sale, or trading. The Association currently classifies all fixed-maturity securities as available-for-sale and reports them at fair value, with subsequent changes in value, other than impairments, reflected as unrealized investment gains and losses credited or charged directly to accumulated other comprehensive income (loss) included in equity. Realized gains and losses on investments included in the results of operations are determined using the specific-identification method.

All investment transactions have exposure to credit losses to the extent that a counterparty may default on an obligation to the Association. Credit risk is a consequence of carrying investment positions. To manage credit risk, management focuses primarily on higher-quality, fixed-maturity securities, reviews the credit strength of all entities in which the Association invests, limits the Association's exposure in any one security, and monitors portfolio quality, considering credit ratings assigned by recognized credit-rating organizations.

Management periodically evaluates investments in fixed-maturity securities with unrealized losses to determine if declines in fair value are credit losses. The general types of information considered in making that determination include credit ratings of the issuer and the security, market interest rates, coupon rate of the security, and the Association's ability and management's intent to hold the security before recovery or maturity. For fixed-maturity securities with unrealized losses that management intends to sell, or for which it is probable that the Association will have to sell before recovery or maturity, the unrealized losses are recognized as impairment losses in net income (loss). Fixed-maturity securities with unrealized losses that management intends to hold and believes that it is not probable that the Association will be required to sell before recovery or maturity are evaluated for the existence of credit losses. A credit loss is incurred when the present value of the expected cash flows is less than the security's amortized cost. If such credit losses exist, an allowance for credit losses is established against the amortized cost of fixed-maturity securities with a corresponding charge to net income (loss). Subsequent changes in the allowance for credit losses are recorded in net income (loss). Losses related to non-credit factors, such as changes in interest rates or market conditions, are reflected as a component of accumulated other comprehensive income (loss). The Association has not experienced any impairment or credit losses in its investments and management has not established any allowance for credit losses, against the Association's investments, at December 31, 2023 and 2022.

1. Organization and Significant Accounting Policies (continued)

Investments (continued)

Management has elected to not measure an allowance for credit losses related to accrued investment income as any uncollectible amount is charged to interest income.

Securities Lending Arrangements

The Association engages in transactions where 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 collateral received and the corresponding liability to return the collateral. Cash received for collateral is reinvested in a fund managed by Northern Trust that consists of various short-term investments (primarily certificates of deposit and commercial paper). Noncash collateral consists of various Federal National Mortgage Association mortgage-backed securities.

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 Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses (LAE) represent the estimated ultimate net cost of all unpaid reported and unreported losses and LAE. Once a member insurer becomes insolvent and is declared insolvent, the Association becomes responsible for processing its covered losses. The unpaid losses and LAE 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 losses and LAE is an estimation process. Many factors can ultimately affect the final settlement of a loss and, therefore, the amount that is needed in establishing the liability. Although considerable variability is inherent in such estimates, management believes the unpaid losses and LAE 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 becomes apparent.

Return Premium Payable

The Association is obligated to pay the unearned premium liabilities of insolvent insurers, which is reflected as return premium payable on the balance sheets.

1. Organization and Significant Accounting Policies (continued)

Member Assessments

The Association can fund its operations by assessing its member insurers and by then seeking reimbursement from the assets of the estate of the insolvent member insurer. There are two classes of assessment that may be made against member insurers: Class A (Administrative) and Class B (Insolvency).

Class A assessments are made for the purpose of meeting general operating and administrative costs and expenses (e.g., general overhead expenses and covered loss adjustment expenses).

Class B assessments are made against solvent member insurers in order to provide the funds needed that enable the Association to fulfill its statutory obligations to protect Texas residents against loss due to failure in performance of contractual obligations (covered loss payments) due to the insolvency of a member insurer.

Assessments are determined by the Association's Board of Directors and are made in the proportion that the net direct written premiums of the insurer for the calendar year preceding the assessment bear to the net direct written premiums of all member insurers for that year. In 2023, the Association issued a Class B assessment of $110,000,000 for the other lines of business. In 2022, the Association issued a Class B assessment of $75,000,000 for the other lines of business.

The Association recognizes assessment revenue when assessed to the members of the Association.

Distributions

Distributions from receiverships are recognized when received by the Association to the extent they are not in excess of cumulative losses and loss adjustment expense paid for the specific estate (excess estate distributions).

Distributions receivable represent losses and loss 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 distributions receivable, the Association has established an allowance equal to the balance of distributions receivable as of December 31, 2023 and 2022. The Association writes off a distribution receivable and its related allowance when a receivership is closed by the state. Repayments of distributions receivable are recorded as revenue when received from receiverships.

Comprehensive Income or Loss

Comprehensive income (loss) includes unrealized gains and losses on investments in fixed-maturity securities classified as available-for-sale and is included as a component of equity.

1. Organization and Significant Accounting Policies (continued)

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.

Fair Value of Financial Instruments

The fair value of financial instruments represents estimates of fair values at a specific point in time determined by the Association using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and significant judgment in the interpretation of current market data. Therefore, the fair values presented are not necessarily indicative of amounts the Association could realize or settle currently.

The level in the fair value hierarchy within which fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the hierarchy are as follows:

- Level 1: Inputs are unadjusted, quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Unobservable inputs reflect the Association's own assumptions about the assumptions that market participants would use in pricing the asset or liability at the measurement date.

The Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Subsequent Events

The Association has evaluated subsequent events through March 28, 2024, the date the financial statements were available to be issued. During the period from December 31, 2023 to March 28, 2024, the Association did not have any material recognizable subsequent events.

2. Investments

The amortized cost and fair value of fixed-maturity securities are as follows:

	December 31, 2023			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government and government agencies	**$ 210,631,050**	**$ 834,882**	**$ (6,898,737)**	**$ 204,567,195**
States and political subdivisions	**60,274,569**	**124,198**	**(3,221,894)**	**57,176,873**
Corporate	**99,295,407**	**642,897**	**(4,772,828)**	**95,165,476**
Asset-backed	**61,500,216**	**365,168**	**(1,954,724)**	**59,910,660**
	$ 431,701,242	**$ 1,967,145**	**$ (16,848,183)**	**$ 416,820,204**

	December 31, 2022			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government and government agencies	$ 234,623,045	$ 77,677	$ (13,077,945)	$ 221,622,777
States and political subdivisions	62,293,530	61,966	(5,165,451)	57,190,045
Corporate	104,925,303	58,252	(8,387,330)	96,596,225
Asset-backed	47,642,840	25,335	(3,179,849)	44,488,326
	$ 449,484,718	$ 223,230	$ (29,810,575)	$ 419,897,373

2. Investments (continued)

A summary of the aggregate fair values of fixed-maturity securities with unrealized losses segregated by time period in an unrealized loss position is as follows:

	December 31, 2023					
	Less than 12 months		12 months or greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Government and government agencies	**$ (218,239)**	**$ 1,680,990**	**$ (6,680,498)**	**$ 131,412,276**	**$ (6,898,737)**	**$ 148,093,266**
States and political subdivisions	**(2)**	**349,998**	**(3,221,892)**	**51,146,607**	**(3,221,894)**	**51,496,605**
Corporate	**(52,080)**	**2,575,298**	**(4,720,748)**	**67,882,681**	**(4,772,828)**	**70,457,979**
Asset-backed	**(37,971)**	**4,602,283**	**(1,916,753)**	**30,473,225**	**(1,954,724)**	**35,075,508**
	$ (308,292)	**$ 9,208,569**	**$ (16,539,891)**	**$ 280,914,789**	**$ (16,848,183)**	**$ 305,123,358**

	December 31, 2022					
	Less than 12 months		12 months or greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. Government and government agencies	$ (5,783,597)	$ 144,120,726	$ (7,294,348)	$ 64,422,582	$ (13,077,945)	$ 208,543,308
States and political subdivisions	(3,350,231)	43,355,757	(1,815,220)	12,457,322	(5,165,451)	55,813,079
Corporate	(4,491,704)	66,840,019	(3,895,626)	25,378,625	(8,387,330)	92,218,644
Asset-backed	(1,842,521)	32,231,157	(1,337,328)	6,836,196	(3,179,849)	39,067,353
	$ (15,468,053)	$ 286,547,659	$ (14,342,522)	$ 109,094,725	$ (29,810,575)	$ 395,642,384

The amortized cost and fair value of the Association's fixed-maturity securities as of December 31, 2023, 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.

	Amortized Cost	**Fair Value**
Due in one year or less	$ 18,443,085	$ 18,208,833
Due after one year through five years	251,029,811	242,183,100
Due after five years through ten years	99,419,010	95,176,924
Due after ten years	1,309,120	1,340,687
Asset-backed	61,500,216	59,910,660
Total	$ 431,701,242	$ 416,820,204

Proceeds from sales or maturities of investments in fixed-maturity securities during 2023 were $156,977,875 with gross realized gains of $218,016 and gross realized losses of $6,422,619. Proceeds from sales or maturities of investments in fixed-maturity securities during 2022 were $260,596,222 with gross realized gains of $163,284 and gross realized losses of $11,207,456.

2. Investments (continued)

Investment income is composed of the following for the years ended December 31:

	2023	2022
Fixed-maturity securities	**$ 12,938,444**	$ 9,850,701
Cash and cash equivalents	**253,739**	54,646
Investment expenses	**1,011,526**	(444,163)
Net investment income	**$ 14,203,709**	$ 9,461,184

3. Fair Value Measurements

The fair value estimates presented herein are based on unit prices provided by a third-party pricing service at December 31, 2023 and 2022. Although the Association is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been revalued for purposes of these financial statements since that date and current estimates of fair value may differ significantly from the amounts presented herein.

The carrying values of cash and cash equivalents, accrued investment income, assessments receivable, accounts payable, and accrued expenses approximate their fair value.

Investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

The tables below present the Association's fair value hierarchy of its securities on a recurring basis:

	December 31, 2023			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. Government and government agencies	**$ 204,567,195**	**$ -**	**$ 204,567,195**	**$ -**
States and political subdivisions	**57,176,873**	**-**	**57,176,873**	**-**
Corporate	**95,165,476**	**-**	**95,165,476**	**-**
Asset-backed	**59,910,660**	**-**	**59,910,660**	**-**
Securities lending collateral	**85,611,097**	**-**	**85,611,097**	**-**
	502,431,301	**-**	**502,431,301**	**-**
Securities lending collateral fund at NAV	**9,814,921**			
Total investments	**$ 512,246,222**			

3. Fair Value Measurements (continued)

	December 31, 2022			
	Total	**Level 1**	**Level 2**	**Level 3**
U.S. Government and government agencies	$ 221,622,777	$ -	$ 221,622,777	$ -
States and political subdivisions	57,190,045	-	57,190,045	-
Corporate	96,596,225	-	96,596,225	-
Asset-backed	44,488,326	-	44,488,326	-
Securities lending collateral	57,800,907	-	57,800,907	-
	477,698,280	-	477,698,280	-
Securities lending collateral fund at NAV	4,633,358			
Total investments	$ 482,331,638			

The Association has no assets or liabilities measured at fair value in the Level 3 category.

Securities categorized as Level 2 were valued using a market approach. Valuations were based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.

During 2023 and 2022, the Association had no event or circumstance change that would cause an instrument to be transferred between levels.

Fair values generally represent quoted market value prices for securities traded in the public marketplace or analytically-determined values using bid or closing prices for securities not traded in the public marketplace.

4. Property and Equipment

Property and equipment consists of the following:

	December 31,	
	2023	**2022**
Telephone systems	**$ 78,817**	$ 78,817
Furniture and fixtures	**1,062,272**	1,062,272
Computer equipment and software	**1,676,845**	1,641,363
Leasehold improvements	**310,558**	310,558
	3,128,492	3,093,010
Less accumulated depreciation	**2,915,669**	2,857,060
	$ 212,823	$ 235,950

Depreciation and amortization expense totaled $58,608 and $57,764 for the years ended December 31, 2023 and 2022, respectively.

5. 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 2022 premium information available from the Texas Department of Insurance and the Texas Comptroller's Office:

	Premium Base	Assessment Capability
Line of business:		
Automobile	$ 32,506,054,037	$ 650,121,081
Other lines	30,061,931,068	601,238,621
Workers' compensation	2,712,322,128	54,246,443
	$ 65,280,307,233	$ 1,305,606,145

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 settled, refunds of prior member assessments will be redistributed back to members based upon the percentage of the member's original assessment. There were no refund assessments redistributed to members during 2023 and 2022.

6. Unpaid Losses and LAE

The Association establishes a liability for unpaid losses and LAE on 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.

6. Unpaid Losses and LAE (continued)

The following summarizes activity in the liability for loss and LAE reserves for known insolvent insurers:

	(in thousands) December 31, 2023	2022 *(restated)*
Balance at beginning of year	**$ 376,823**	$ 376,094
Losses and LAE incurred related to:		
Current year	**48,618**	64,168
Prior years	**(22,804)**	15,000
Total incurred	**25,814**	79,168
Losses and LAE paid related to:		
Current year	**11,946**	10,973
Prior years	**73,436**	67,466
Total paid	**85,382**	78,439
Balance at end of year	**$ 317,255**	$ 376,823

The liability for unpaid losses and LAE consists of estimates to settle losses 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 losses. Claim files from the insolvent company are forwarded to the Association for claim handling and adjusting. Losses and LAE incurred attributable to insured events of prior years have developed by approximately $(22,804,000) and $15,000,000 in 2023 and 2022, respectively, as a result of member insurer insolvencies designated as impaired by the commissioner of insurance and reestimation. Reestimation changes are generally a result of ongoing analysis of loss development. Original estimates are adjusted as additional information becomes known regarding individual claims. The Association believes it has, or has access to, sufficient resources to fulfill its responsibilities with respect to member insurer insolvencies.

As noted in Note 5, 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 unpaid losses and LAE as of December 31, 2023, are as follows:

	Unpaid Losses and LAE	**Annual Assessment Capability**
Line of business:		
Automobile	**$ 23,835,353**	$ 650,121,081
Other lines	**50,390,831**	601,238,621
Workers' compensation	**224,521,900**	54,246,443
Loss adjustment expenses	**18,506,474**	No limit
	$ 317,254,558	

7. Employee Benefit Plans

The Association sponsors a 401(k) plan that is open to all employees. The plan provides for the Association to match 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 contributions to the plan totaled $239,757 and $234,836 for the years ended December 31, 2023 and 2022, respectively.

8. Concentrations

Most of the Association's assessment and distribution revenue is derived from the insurance industry in the state of Texas. At December 31, 2023 and 2022, all of the Association's assessments and distributions receivable are from companies that are operating, or have operated, in Texas.

9. 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 can be in the form of cash, U.S. Treasury securities, or Federal National Mortgage Association mortgage-backed 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. The agreement term is indefinite; however, the Association may terminate a loan at any time, whereby Northern Trust shall deliver equivalent securities to the Association within (a) the customary delivery period for such securities, (b) five business days, or (c) the time negotiated for such delivery by the Association and Northern Trust, whichever period is least, and the Association shall concurrently therewith deliver collateral identical to the collateral provided by Northern Trust.

Although the Association's securities lending activities are collateralized as described above and 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.

9. Securities lending (continued)

At December 31, 2023 and 2022, the fair value of securities loaned in the portfolio was $92,902,624 and $60,748,034, respectively. At December 31, 2023 and 2022, collateral held for securities lending was $95,426,018 and $62,434,265, respectively. Noncash collateral received primarily in the form of Federal National Mortgage Association mortgage-backed securities was $85,611,097 and $57,800,907 as of December 31, 2023 and 2022, respectively. Cash collateral received was $9,814,921 and $4,633,358 as of December 31, 2023 and 2022, respectively, which was reinvested in a fund held by Northern Trust. This fund consists of various short-term investments (primarily certificates of deposit and commercial paper). The value of the collateral held and a corresponding liability to return the collateral have been reported on the accompanying balance sheets. The collateral can only be accessed in the event that the institution borrowing the securities is in default under the lending agreement. As a result of these restrictions, the securities lending activities are considered to be noncash investing and financing activities.

10. Distributions

Distributions receivable consist of losses and LAE adjustment expenses paid on behalf of impaired insurers in excess of estate distributions received. Excess estate distributions consist of distributions received in excess of losses and LAE paid. An allowance is made for all distributions receivable. Any repayments of distributions to the Association are recorded as revenue when received. Distributions receivable by line of business are as follows:

	December 31, 2023	December 31, 2022
Administrative	**$ 33,512,180**	$ 37,093,767
Automobile	**68,943,517**	58,197,455
Other lines	**222,182,137**	166,603,017
Workers' compensation	**182,366,947**	174,881,565
	507,004,781	436,775,804
Less allowance	**(507,004,781)**	(436,775,804)
Net distributions receivable	**$ -**	$ -

The following table represents collections on the distributions receivable over the last 10 years. Collections on the distributions receivable include distributions and subrogation and salvage recoveries, which are reported separately on the statements of comprehensive income (loss). The variability of collection by year is significant and is affected by the composition of open estates as of the balance sheet date. It is also difficult to estimate collectible amounts in a given year; as a result, the Association elected to establish an allowance equal to the distribution receivable balance.

10. Distributions (continued)

	Receivable at Beginning of Year	Distributions/ Recoveries	Percentage
2023	**$ 436,775,804**	$ 39,865,094	9.1 %
2022	**339,380,373**	28,825,143	8.5 %
2021	**310,462,559**	10,591,287	3.4 %
2020	**301,663,408**	12,652,468	4.2 %
2019	**328,599,079**	51,197,896	15.6 %
2018	**313,527,203**	18,293,716	5.8 %
2017	**291,362,257**	19,565,825	6.7 %
2016	**269,531,814**	22,746,826	8.4 %
2015	**254,291,186**	35,452,683	13.9 %
2014	**245,064,425**	40,297,366	16.4 %

11. Commitments and Contingencies

During the ordinary course of business, the Association is involved in various litigation. The ultimate outcome of such litigation is uncertain. However, management and legal counsel are of the opinion that any resulting unfavorable outcomes would have minimal adverse economic impact on the Association.

12. Lease

The Association leases office space under an operating lease agreement that has an initial term of 10 years. The lease has two options to renew at the Association's discretion, with a renewal term of five years each. In addition, the lease contains termination options, where the rights to terminate are held by both the Association and the lessor. The Association’s operating lease generally does not contain any material restrictive covenants or residual value guarantees.

At December 31, 2023, the Association recorded a right-of-use asset of $555,298 in other assets in the accompanying balance sheet and an operating lease liability of $567,677 in accounts payable and accrued expenses in the accompanying balance sheet. At December 31, 2023, the remaining lease term is one year and the discount rate is 1.04%. Operating lease cost is recognized on a straight-line basis over the lease term. Lease expense was $621,970 and $616,186, including interest of $8,824 and $15,075, for the years ended December 31, 2023 and 2022, respectively.

12. Lease (continued)

Future undiscounted cash flows for each of the next five years and thereafter and a reconciliation to the lease liabilities recognized on the balance sheet are as follows as of December 31, 2023:

Year		
2024	$	570,139
2025		-
2026		-
2027		-
2028		-
Thereafter		-
Total lease payments		570,139
Less imputed interest		2,462
Total present value of lease liabilities	$	567,677

13. Correction of an Error

In prior years, the Association did not record a provision for losses and LAE incurred but not reported (IBNR), which was not consistent with generally accepted accounting principles. During the year ended December 31, 2023, the Association corrected its method of accounting for IBNR to be consistent with generally accepted accounting principles.

The financial statements for the year ended December 31, 2022, have been restated for this correction and the portion of the adjustment applicable to the year ended December 31, 2021, and prior years in the amount of $24,598,298 is presented as correction of an error on the statements of changes in equity. In addition, this correction had the effect of increasing the change in reserves for unpaid losses and loss adjustment expenses on the statements of comprehensive income (loss) by $25,950,760 for the year ended December 31, 2022, as compared to the amounts previously reported.

Other Financial Information

Texas Property and Casualty Insurance Guaranty Association

Schedules of General and Administrative Expenses

	Years ended December 31, 2023	2022
Employment expenses	**$ 4,763,187**	$ 4,453,315
Employee relations	**8,176**	10,945
Education and staff development	**56,855**	62,842
Contract labor	**32,170**	35,356
Legal fees	**202,601**	93,234
Audit fees	**102,335**	128,635
Leasehold improvements	**11,987**	11,298
Office rent and overhead	**789,960**	708,272
Insurance - general	**161,666**	141,271
Furniture and equipment	**23,181**	34,202
Equipment rental	**12,362**	4,005
Computer systems	**425,518**	469,129
Telephone and telecommunications	**37,891**	30,526
Office supplies	**15,854**	18,259
Postage	**60,964**	64,554
Printing	**12,300**	9,852
Travel expenses	**9,453**	16,021
Professional meetings	**843**	4,323
Reference materials	**12,398**	14,444
Subscriptions and professional dues	**169,199**	170,431
Property taxes	**6,552**	8,629
Depreciation and amortization expense	**58,608**	57,764
Total general and administrative expenses	**$ 6,974,060**	$ 6,547,307

See report of independent auditors.