

Let it
Rain!



Texas Water Conservation Association Risk Management Fund



Annual
Report

2016



Contents

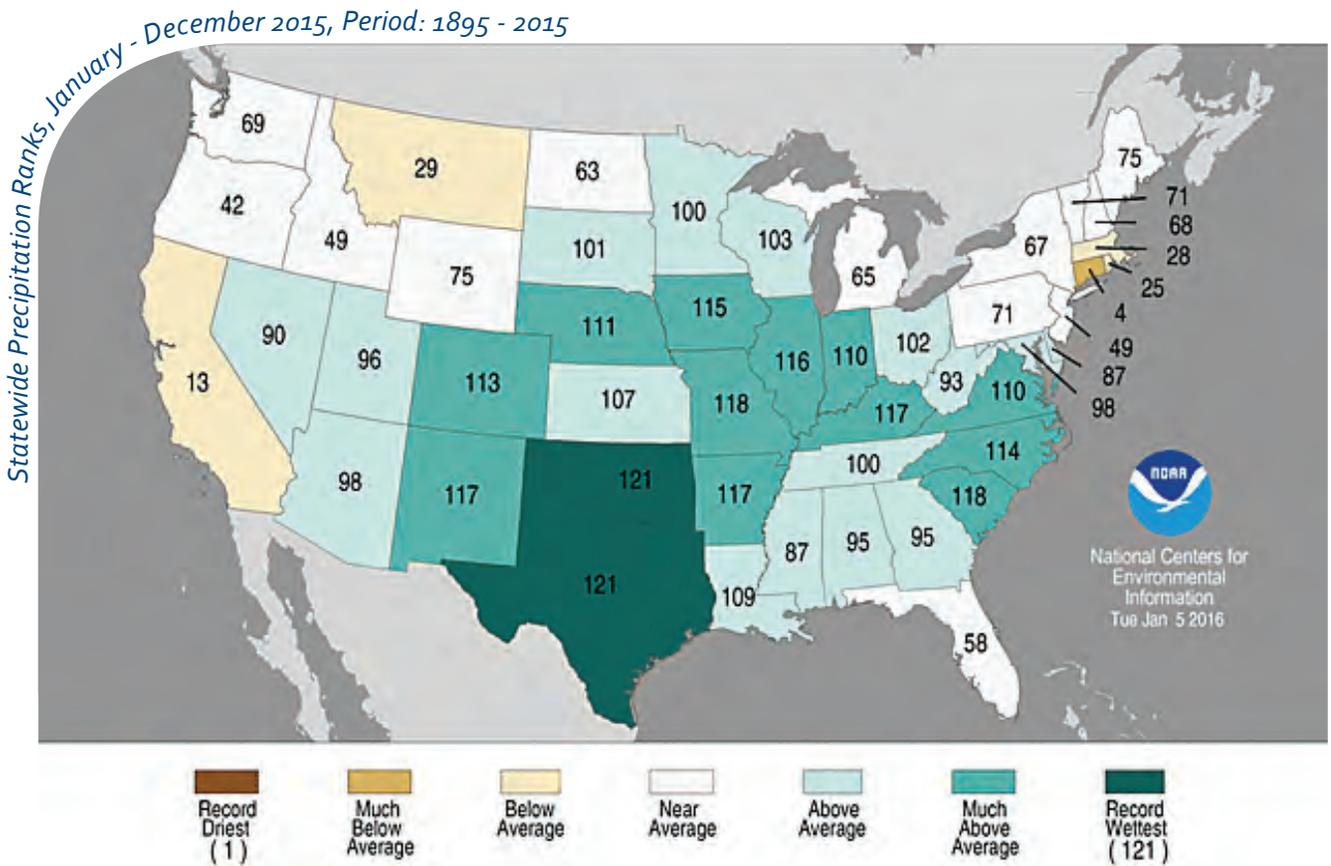
Chairman's Letter	2
About the Fund	4
Financial Highlights	6
Independent Auditors Report	8
Balance Sheets	10
Coverages	12
Trustees, Managers and Advisors	13
Membership	14
Safety Awards	16

A wet winter results in a profusion of wildflowers in the spring

Chairman's Letter

As the cover of this annual report illustrates in such a joyous way, Texas has been getting enough rain to break the drought that has had a hold on us since 2011. Just as the drought did, adequate rain brings change. Illustrated throughout this report are some of the changes wrought by moisture where once there was only the dry, desiccated absence of water. The changes also symbolize what has been happening at the Texas Water Conservation Association Risk Management Fund.

According to NOAA, rainfall over Texas in 2015 gave us the wettest year on record. NOAA also shows 2011 as the driest year on record in Texas. The ranking of states for wettest and driest years published by NOAA depicted in this report shows the impact of the blessed rain the little boy on the cover is enjoying. As we know, years of abundance are usually followed by years of drought. That understanding brings a continued commitment to do our best to supply good and ample water to the citizens of Texas. The water districts and river authorities of Texas have welcomed this change and are doing their utmost to conserve the resource.



The widely recognized retirement of Leroy Goodson may be change enough for one organization that has relied on his leadership since its inception in 1988. The Fund, the TWCA and many other organizations honored Leroy last year and gave us a chance to reflect on his many contributions to the world of Texas water. The Fund owes its existence to Leroy's leadership and championing the cause of water districts taking control of their own risk management. He tirelessly promoted the Fund and encouraged new members to come aboard. He will be missed.

His departure gives us a chance to take the measure of our organization and look to new leadership and perhaps new ways of doing things. Dean Robbins, long Leroy's second in command has assumed leadership of the TWCA and the Fund Board secretary's role. Dean has been involved in the Fund for many years and understands its workings and mission extremely well. We look forward to the strength and knowledge he brings to the Fund. Dean's new assistant general manager, Stacy Steinbach also brings a wealth of knowledge about Texas water and how to communicate its message. She will help us adapt to a faster, more social way of communicating our story.

2015 was also a legislative year and that always brings change to Texas and Texas water law. New laws regarding eminent domain, groundwater, desalination and aquifer storage and recovery brought some changes to Texas water law.

The Fund also made important changes to better protect members during 2015. New coverage was added for the board members of our water districts and river authorities that are caught up in *ultra vires* actions. This new coverage will help pay defense cost as well as help to get these cases dismissed. Also, a redesigned set of coverage documents was issued that made many changes to improve readability and eliminate inconsistencies or contradictions in language. Finally, the Fund continued its financial growth in 2015, reaching over \$26.1 million in total assets and \$17.3 million in net position. This net position and the underlying financial wherewithal that accompanies it, provides the Fund considerable flexibility in securing the broad yet cost effective coverage that you have come to rely upon from the Fund.

So, I invite you to read this annual report and remember some of the dramatic changes that have affected our State, the Association and your Risk Management Fund this past year. But most importantly while reading the report, I hope you celebrate in the Fund's accomplishments this year and in year's past, because after all it is YOUR FUND.

Handwritten signature of Alvin Schuerg in blue ink.

Alvin Schuerg

Chair

About the Fund

The Texas Water Conservation Association Risk Management Fund (the Fund) was created by Texas water districts and authorities to provide a comprehensive program of self-insurance for the Fund's members. Through this program, member districts and authorities pool their risks and combine resources to obtain greater stability and economies of scale for risk management. In addition to self-insurance coverage, member districts and authorities receive risk management, legal, training and loss prevention services that are designed to meet their unique needs.

The Fund exists solely to provide coverage and risk management services for its member water districts and authorities. Its objectives are to provide long-term stability in coverage and cost, attain lower costs by reducing claims costs, develop improved risk management practices, and allow its members more control over their management of risk. Water districts and authorities that are members of the Texas Water Conservation Association are eligible to participate in the Fund.

The membership of the Fund reflects the diverse world of water operations in Texas. Members include river authorities, municipal water districts and authorities, municipal utility districts, water control and improvement districts, groundwater conservation districts, port authorities, navigation districts, irrigation districts, drainage districts and special utility districts.

Spillways overflow with the abundance of water



Leadership

The Fund is governed by an eleven member Board of Trustees comprised of senior management from member districts and authorities. The Board includes representation from large districts and authorities with hundreds of employees and small districts with only a few. Each board member is elected by the Fund's membership and serves overlapping three-year terms. The Board meets at least four times a year and makes all major policy decisions.

Coverage and Services

The Fund provides comprehensive coverage for workers' compensation, automobiles, general liability, errors & omissions liability and all types of property. As a member owned and governed program, the Fund is uniquely positioned to understand and respond to changes in members' operating environments. The Fund responds quickly to emerging risks with coverage modifications or additions. Recent examples include the addition of Crime coverage, Defense Cost coverage for individual board members brought into ultra vires actions and Cyber Liability coverage.

This allows the Fund to respond to emerging issues quickly and to provide risk protection services to address those exposures.

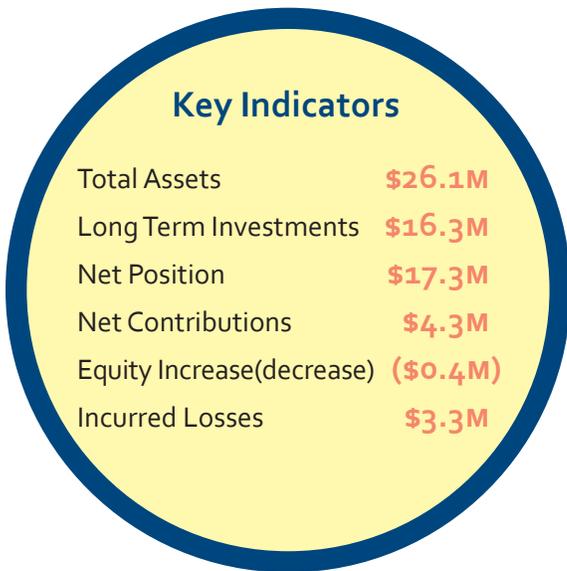
Loss prevention is a high priority for the Fund. Over the years, the Fund has worked as a partner with its members in reducing risks and exposures inherent in their operations. This is reflected in the broad range of services, including safety surveys and consultations, training, and other loss prevention resources provided to members.

Value Added Benefits

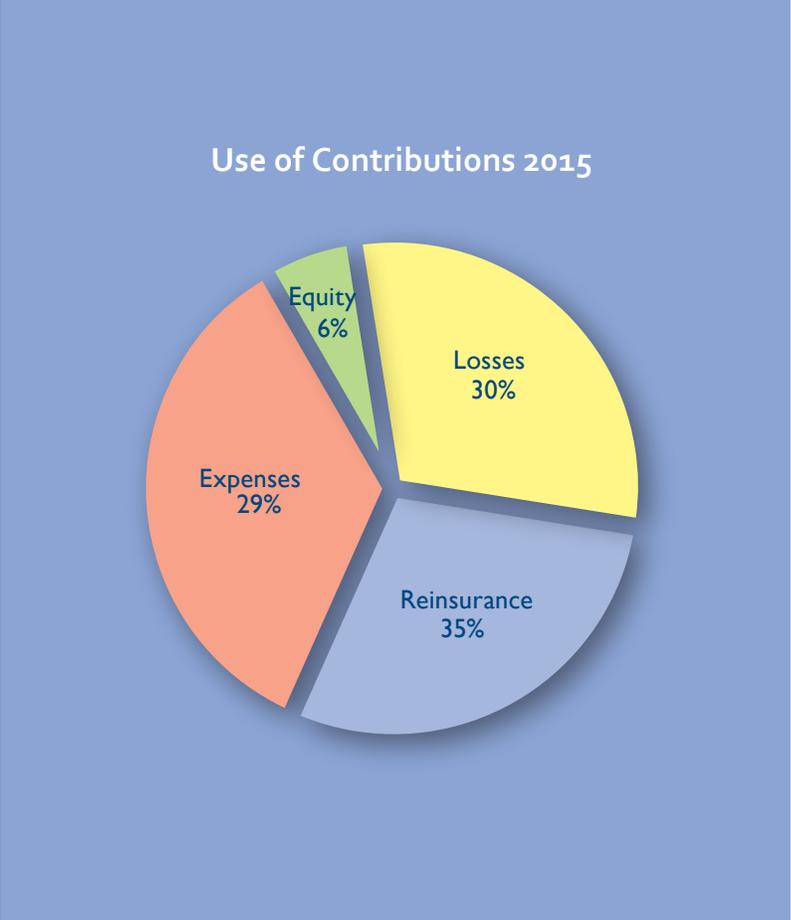
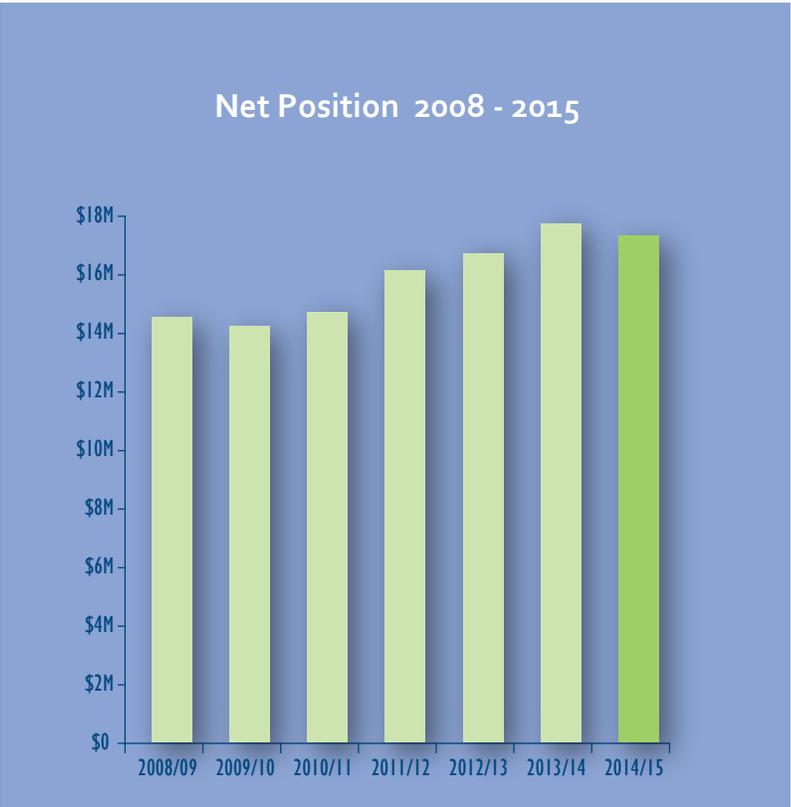
The TWCA Risk Management Fund provides value added benefits and services for its members. The following list highlights some of the many things that distinguish the Fund from others in the marketplace.

- Members Are the Owners
- Protection from Catastrophic Losses provided by A+ rated reinsurance carriers
- Risk Management Consultations provided by staff risk management consultant
- Loss Prevention services provided by highly qualified Loss Control Consultants
- Safety Seminars and Training
- Leadership Training for managers and supervisors
- Construction plan design reviews through FM Global.
- A comprehensive Personnel Policy Guide that contains legal background information and sample personnel policies designed specifically for use by Texas water districts and authorities.
- The quarterly Risk Advisor newsletter keeps Fund members informed of current trends and developments in safety and risk management.
- Periodic bulletins cover specific risk management topics. Risk Alerts are issued as needed when members need to know about recent risk related events or trends
- Legal Loss Prevention through attorneys familiar with water districts and water law
- Property valuations to insure properly valued coverage in the event of a loss
- Efficient Online Services
- Online Safety Training
- Online Workers' Compensation Information
- Online Claim and Form Submission
- Online Renewals and Online MVR Checks

Financial Highlights



- Total assets increased by \$2.3 million over 2014.
- Despite the dismal investment environment, total investments eked out modest growth.
- Incurred losses increased substantially due to a strengthening of reserves in both the Workers' Compensation and Liability lines of coverage. Paid claims track closely with prior years. Strengthening of reserves, recommended by the actuary helps maintain the stability of the Fund over time.
- Despite internal growth and the addition of new members, the Fund was able to keep contributions less than 1% higher than in 2014. The Fund's philosophy of using surplus to keep rates stable resulted in a slight decrease in net position.



Loss Rate Trends

The strengthening of reserves shows up in the overall loss rate for 2015, a very modest increase from the prior year.

Loss Rate per \$1,000 Net Operating Expenditures



Combined Ratio

The combined ratio is the relationship between losses and operating expenses to the net contributions paid by members to the Fund. The increase in losses and the essentially static level of contribution means that the ratio has gone up. The underlying level of investments, equity and total assets maintain the strength and stability of the Fund.

Combined Ratio 2008 - 2015



Independent Auditors' Report



To the Board of Trustees of
Texas Water Conservation Association Risk Management Fund:

Report on the Financial Statements

We have audited the accompanying financial statements of Texas Water Conservation Association Risk Management Fund (the "Fund"), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations, changes in net position, 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 audit 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 Fund'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 Fund'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 Water Conservation Association Risk Management Fund as of June 30, 2015 and 2014, 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.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the claims development information and changes in claims liabilities be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Financial Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other financial information, consisting of balance sheets by program as of June 30, 2015, and the statements of operations and changes in net position by program for the year ended June 30, 2015, is presented for purposes 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 information has been subjected to the auditing procedures applied in the audit 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Holtzman Partners, LLP

Holtzman Partners, LLP

October 27, 2015

Balance Sheets

AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 9,333,960	\$ 4,906,293
Investments – short-term (Note 3)	–	253,230
Contributions receivable from members, including unbilled contributions of \$263,614 and \$227,831 at June 30, 2015 and 2014, respectively (Note 2)	357,746	296,690
Accrued interest	64,368	76,825
Other receivables	25,000	–
Prepaid expenses	48,753	2,164,990
Total current assets	9,829,827	7,698,028
NONCURRENT ASSETS:		
Investments – long-term (Note 3)	15,810,970	15,659,389
Other assets – long-term (Note 9)	500,000	500,000
Total noncurrent assets	16,310,970	16,159,389
TOTAL	\$ 26,140,797	\$ 23,857,417
LIABILITIES		
CURRENT LIABILITIES:		
Unearned member contributions	\$ 2,655,266	\$ 1,303,320
Other accrued expenses and liabilities	151,281	113,075
Total current liabilities	2,806,547	1,416,395
LONG-TERM LIABILITIES – Reserve for losses and loss adjustment expenses – net of reinsurance (Notes 5 and 6)	6,037,654	4,749,298
Total liabilities	8,844,201	6,165,693
NET POSITION – unrestricted	17,296,596	17,691,724
TOTAL	\$ 26,140,797	\$ 23,857,417

See notes to financial statements.

Statements of Operations and Changes in Net Position

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CONTRIBUTIONS:		
Gross contributions earned	\$ 6,553,442	\$ 6,583,789
Reinsurance contributions ceded (Note 6)	(2,285,376)	(2,356,433)
Net earned contributions	4,268,066	4,227,356
LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6)		
Paid losses and loss adjustment expenses – net of deductibles and reinsurance recoveries	1,998,803	1,335,144
Change in reserve for losses and loss adjustment expense – net of deductibles and reinsurance recoverables	1,288,357	269,896
Net incurred losses and loss adjustment expenses	3,287,160	1,605,040
OTHER OPERATING EXPENSES:		
Contract and support fees (Notes 4 and 7)	1,332,082	1,370,024
Loss control fees	298,114	298,898
Legal and professional fees	169,056	147,015
Other expenses	140,035	245,476
Total other operating expenses	1,939,287	2,061,413
OPERATING INCOME (LOSS)	(958,381)	560,903
OTHER INCOME:		
Investment income	397,939	278,767
Change in fair value of investments	165,314	129,631
Total other income	563,253	408,398
NET INCOME (LOSS)	(395,128)	969,301
NET POSITION – Beginning of year	17,691,724	16,722,423
NET POSITION – End of year	\$ 17,296,596	\$ 17,691,724

See notes to financial statements.



Green pastures beckon in the Texas Hill Country

Coverages

The TWCA Risk Management Fund offers three comprehensive programs tailored to meet the vast majority of water districts' and authorities' insurance needs.

Workers' Compensation

Workers' compensation covers medical bills, rehabilitative and lost income benefits for district and authority employees who sustain on-the-job injuries.

Liability

The Fund offers automobile liability (AL), general liability (GL), and public official's errors & omissions (E&O) coverages. The liability coverages have been custom tailored to meet the exposures commonly faced by water districts and authorities in Texas. Some examples of this include the addition of options for dam failure liability, limited pollution coverage, defense for breach of contract, assumption of liability by contract, increased coverage for non-owned automobiles, and employment practices including employee benefits coverage. Recent additions to coverage include coverage for individual board members to get them dismissed from "ultra vires" actions against their district. Limit options are available up to \$10 million for the three major lines of coverage.

Property

The broad "all risks not otherwise excluded" coverage offered through the property program includes buildings, business personal property, computer equipment, contractor's equipment, boiler and machinery and automobile physical damage. The Fund's property coverage is broadly written to provide maximum protection to members. Basic crime coverage is now included with higher limits of liability available.

Trustees, Managers and Advisors

Trustees

Alvin Schuerg, Chair
Executive Manager of Finance and Administration
Guadalupe-Blanco River Authority

Bruce Knott
Director of Human Resources
San Antonio River Authority

Sonny Hinojosa, Vice Chair
General Manager
Hidalgo County Irrigation District #2

Tom Kula
Executive Director
North Texas Municipal Water District

Norman Ashton
Risk Manager
Tarrant Regional Water District

David Montagne
General Manager
Sabine River Authority of Texas

Ricky Clifton
General Manager
Gulf Coast Waste Disposal Authority

Ronald J. Neighbors, Chairman Emeritus
Consultant
La Grange, Texas

John Grant
General Manager
Colorado River Municipal Water District

Sonia Lambert
General Manager
Cameron County Irrigation District #2
Cameron County Drainage District #3

Jace Houston
General Manager
San Jacinto River Authority

Dean Robbins, Secretary
General Manager
Texas Water Conservation Association

Kathy Turner Jones
General Manager
Lone Star Groundwater Conservation District

Managers and Advisors

Fund Administrator
York Pooling, York Risk Services Group, Austin, Texas

Claims Auditor
Government Entities Mutual,
Concord, New Hampshire

Actuary
Steven A. Glicksman, FCAS, MAAA
Boca Raton, Florida

Investment Custodian
U.S. Bank

Financial Auditor
Holtzman Partners, LLP,
Austin, Texas

Membership

River Authorities

Angelina & Neches River Authority
Brazos River Authority
Guadalupe-Blanco River Authority
Lower Colorado River Authority
Nueces River Authority
Sabine River Authority of Texas
San Antonio River Authority
San Jacinto River Authority
Sulphur River Basin Authority
Upper Colorado River Authority

Municipal Utility Districts

New Caney Municipal Utility District
Roman Forest Consolidated Municipal Utility District
Wells Branch Municipal Utility District

Special Utility Districts

Mustang Special Utility District
Marilee Special Utility District

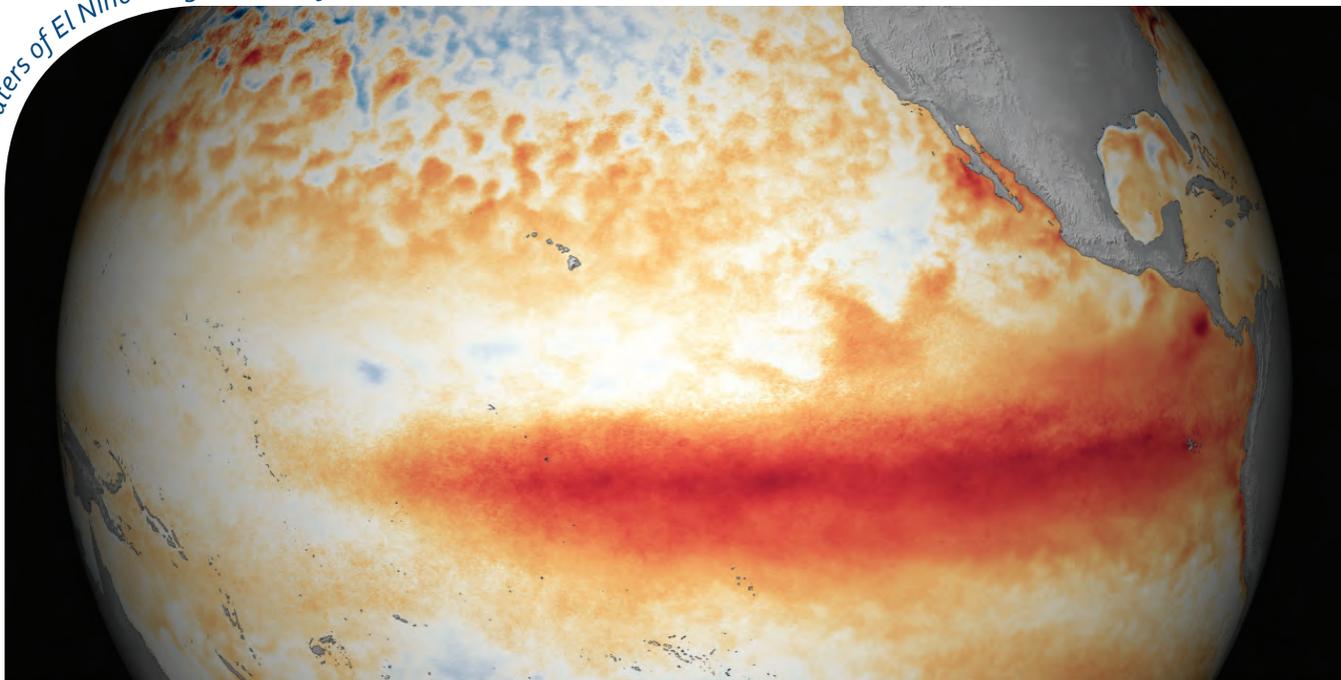
Municipal Water Districts and Authorities

Canadian River Municipal Water Authority
Colorado River Municipal Water District
Franklin County Water District
Greater Texoma Utility Authority
Gulf Coast Waste Disposal Authority
North Harris County Regional Water Authority
North Texas Municipal Water District
Riverbend Water Resources
Tom Green County Fresh Water Supply District #2
Upper Neches River Municipal Water Authority
West Central Texas Municipal Water District

Port Authorities & Navigation Districts

Chambers-Liberty Counties Navigation District
Orange County Navigation and Port District
Victoria County Navigation District
West Side Calhoun County Navigation District

The warm seawaters of El Niño bring more rainfall to Texas



January 2016 compared to 1981-2010

Difference from average temperature (°F)
-9 0 9

Climate.gov/NNVL
Data: Geo-Polar SST

Water Control & Improvement Districts

Angelina & Nacogdoches County Water Control and Improvement District #1
 Brown County Water Improvement District #1
 Cameron County Water Improvement District #10
 Hidalgo County Water Improvement District #3
 Hidalgo County Water Control and Improvement District #19
 Jefferson County Water Control and Improvement District #10
 Maverick County Water Control and Improvement District #1
 Stonewall Water Control and Improvement District
 Tarrant Regional Water District
 Tom Green County Water Control and Improvement District #1
 Wichita County Water Improvement District #2
 Zavala-Dimmit Counties Water Improvement District #1

Irrigation Districts

Adams Gardens Irrigation District #19
 Brownsville Irrigation District
 Cameron County Irrigation District #2
 Cameron County Irrigation District #6
 Delta Lake Irrigation District
 Donna Irrigation District Hidalgo County #1
 Harlingen Irrigation District Cameron County #1
 Hidalgo County Irrigation District #1
 Hidalgo County Irrigation District #2
 Hidalgo County Irrigation District #5
 Hidalgo County Irrigation District #16
 Hidalgo and Cameron Counties Irrigation District #9
 Valley Acres Irrigation District
 Ward County Irrigation District #1

Groundwater Conservation Districts

Coastal Bend Groundwater Conservation District
 Coastal Plains Groundwater Conservation District
 Evergreen Underground Water Conservation District
 Fort Bend Subsidence District
 Harris-Galveston Subsidence District
 Hemphill County Underground Water Conservation District
 High Plains Underground Water Conservation District
 Kenedy County Groundwater Conservation District
 Lone Star Groundwater Conservation District
 Medina County Groundwater Conservation District
 Mid-East Texas Groundwater Conservation District
 North Plains Groundwater Conservation District
 North Texas Groundwater Conservation District
 Northern Trinity Groundwater Conservation District
 Panhandle Groundwater Conservation District
 Panola County Groundwater Conservation District
 Pineywoods Groundwater Conservation District
 Plum Creek Conservation District
 Red River Groundwater Conservation District
 Sandy Land Underground Water Conservation District
 Upper Trinity Groundwater Conservation District

Drainage Districts

Brazoria County Drainage District #4
 Brookshire-Katy Drainage District
 Cameron County Drainage District #1
 Cameron County Drainage District #3
 Cameron County Drainage District #5
 Galveston County Consolidated Drainage District
 Jefferson County Drainage District #3
 Jefferson County Drainage District #7
 Orange County Drainage District of Texas
 San Patricio County Drainage District
 United Irrigation District of Hidalgo County

Safety Awards

The Fund's 2015 safety awards were presented at the Texas Water Conservation Association's fall conference in San Antonio. The four categories of winners were **Outstanding Safety Record in Workers' Compensation, Most Improved Safety Record in Workers' Compensation, Outstanding Safety Record in Liability and Excellence in Risk Management Award**. The Excellence in Risk Management Award recognizes the effort it takes to achieve great results in all areas of risk management. Winners in each category are selected based on their claims experience in comparison to all other members of the Fund.

Outstanding Safety Record in Workers' Compensation Awards

The following water districts and authorities had superior experience in workers' compensation claims as reflected by their workers' compensation experience modifier of .70 or better. The experience modifier reflects how well a district or authority has controlled its losses over the past four years.

- Brazoria Drainage District #4
- Chambers-Liberty Counties Navigation District
- Galveston County Consolidated Drainage District

Most Improved Safety Record in Workers' Compensation Awards

The 2014-15 workers' compensation experience modifiers for the following districts and authorities have declined by greater than 10 percent from their 2013-14 levels with a resulting modifier of less than 1.00.

- San Jacinto River Authority
- Jefferson County Drainage District #7
- Canadian River Municipal Water Authority
- San Patricio County Drainage District

Outstanding Safety Record in Liability Awards

The 2014-15 liability modifier reflects the best liability loss history in General Liability, Automobile Liability and Errors & Omissions with a best combined underwriting factor for all three liability coverages.

- Tarrant Regional Water District

Excellence in Risk Management Award

The member with the best overall record in all lines of coverage:

- Gulf Coast Waste Disposal Authority