

# Texas Water Conservation Association Risk Management Fund

Audited Financial Statements as of and for the  
Years Ended June 30, 2016 and 2015, Other  
Financial Information as of and for the Year Ended  
June 30, 2016, Required Supplementary Information  
(Unaudited) for the Years Ended June 30, 2016 and  
2015, and Independent Auditors' Report

# TEXAS WATER CONSERVATION ASSOCIATION RISK MANAGEMENT FUND

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## **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, 2016 and 2015, 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, 2016 and 2015, 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.

## ***Other Matters***

### ***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 (GASB), 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, 2016, and the statements of operations and changes in net position by program for the year ended June 30, 2016, 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.

*Haltzman Partners, LLP*

October 24, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Texas Water Conservation Association Risk Management Fund**  
**Year Ended June 30, 2016 (Unaudited)**  
**(See Independent Auditors' Report)**

The Texas Water Conservation Association Risk Management Fund (the "Fund") herein sets forth a narrative overview and analysis of its financial activities for fiscal year ended June 30, 2016.

**Financial Highlights**

Assets exceeded Fund liabilities at June 30, 2016, by approximately \$17.7 million, and no amounts were designated as restricted as of the end of the year. Due to the nature of the Fund's relationship with its members, the Fund presents net assets (total assets - total liabilities) as Net Position. The Fund's governing Board of Trustees determines if, how much, and when Net Position distributions are to be made, based on the Fund's long-term financial needs.

For fiscal year 2015–2016, Net Position increased by approximately \$368,000 due primarily to higher than projected contributions.

**Overview of the Financial Statements**

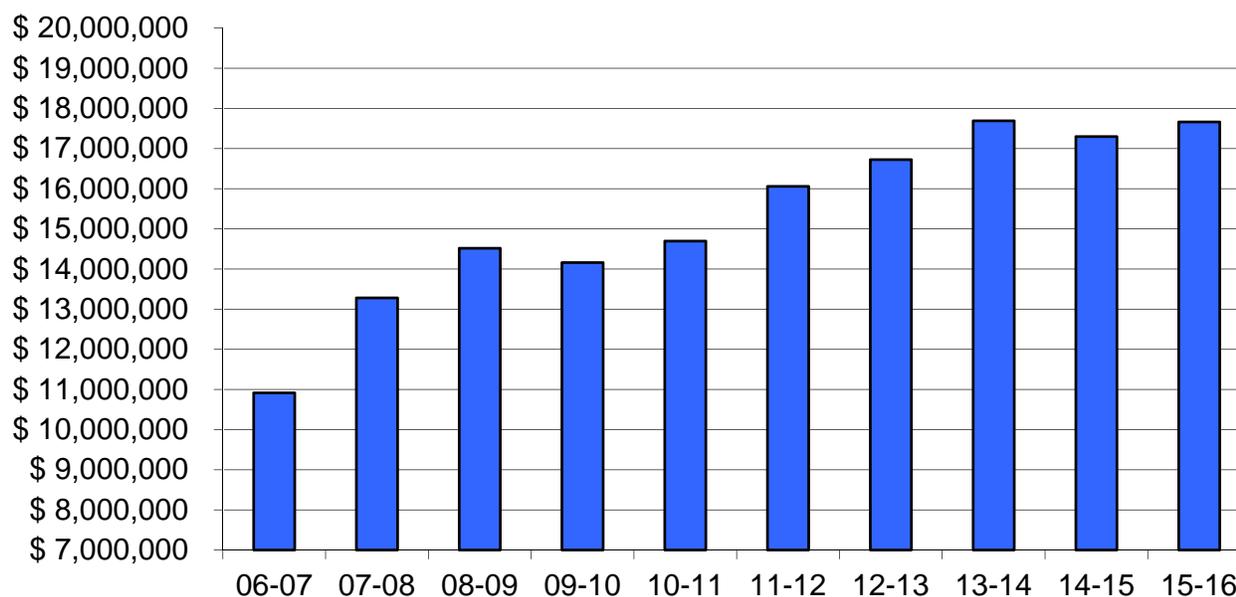
This overview is an introduction to the Fund's financial statements. The Fund's financial statements consist of three components: 1) financial statements and notes, 2) other financial information, and 3) required supplementary information. The financial statements include the Workers' Compensation, Liability and Property Programs.

**Fund Accounting and Financial Statements**

The Fund is a public entity risk pool created under the Texas Interlocal Cooperation Act, and all of the Fund's monies are accounted for as an enterprise fund. The three programs are allocated administrative expenses on a monthly basis. All member contributions flow into one central account, which provides the funding for claims payments, allocated and unallocated claims expenses, operating expenses, and investments. The financial activities and results of each program are provided in the financial statements by program under the Other Financial Information section of this financial report.

The Balance Sheet presents information regarding all of the Fund's assets and liabilities, with the difference between the two being reported as Net Position. Over time, increases or decreases in Net Position may provide a useful indicator regarding how the Fund is meeting the needs and expectations of its members.

### Net Position by Year



The Statement of Operations and Changes in Net Position presents the financial results of the Fund. This statement presents information showing how the Fund's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., accrued investment income, loss reserves, and reinsurance premiums payable).

### Notes to the Financial Statements

The notes provide additional information that is integral to a full understanding of the financial information presented in the financial statements.

### Other Financial Information

The Balance Sheets by Program and Statements of Operations and Changes in Net Position by Program provide a summary regarding the financial activity for each of the three programs. For the fiscal year ended June 30, 2016, the Workers' Compensation and Property Programs generated positive results of approximately \$177,000 and \$267,000, respectively. The Liability Program generated a loss of approximately \$77,000.

### Supplemental Information

In addition to the basic financial statements and accompanying notes, this financial report also presents certain required supplementary information regarding the Fund's ten-year claims development history. Setting member contribution rates today to cover the assumed risk of possible future loss occurrences are largely guided by claims development. Analysis of trends in claims development indicates whether losses are increasing, decreasing or static.

## Financial Analysis for the Fund

### *The Balance Sheet — June 30, 2016*

At approximately \$22.4 million, cash and investments make up 85% of the Fund's total assets as of June 30, 2016. The Fund's investments are restricted to those allowed under the Public Funds Investment Act of Texas and are consistent with the Fund's Investment and Cash Management Policy. The Fund does not practice active market trading. Instead, the Fund utilizes interest income from investments it intends to hold until maturity. The Fund's cash and investment strategy is to match investment maturities, when possible, in such a manner as to cover current cash requirements without having to sell any of the Fund's longer-term investments. This strategy is to allow the Fund to hold longer-term investments until they mature and to have cash readily available as needed to fund operations.

The Fund's other assets consist of receivables due from members, interest receivable, amounts due from reinsurers, and prepaid reinsurance premiums related to the upcoming year.

Reserves for losses and loss adjustment expenses, net of reinsurance, of approximately \$6.4 million, comprise 74% of total liabilities.

As of June 30, 2016, there were no amounts of Net Position that the Fund's Board of Trustees had declared as restricted as all such funds were determined necessary for current and future Fund operations. At the end of the current fiscal year, Net Position totaled approximately \$17.7 million.

### **Comparative Condensed Balance Sheets as of June 30, 2016, 2015, and 2014**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>			
Cash and investments	\$ 22,426,299	\$ 25,144,930	\$ 20,818,912
Other current assets	3,409,070	495,867	2,538,505
Other long-term assets	500,000	500,000	500,000
Total assets	<u>\$ 26,335,369</u>	<u>\$ 26,140,797</u>	<u>\$ 22,857,417</u>
<b>Liabilities:</b>			
Current liabilities	\$ 2,226,961	\$ 2,806,547	\$ 1,416,395
Long-term liabilities	6,444,013	6,037,654	4,749,298
Total liabilities	<u>8,670,974</u>	<u>8,844,201</u>	<u>6,165,693</u>
Net Position – unrestricted	17,664,395	17,296,596	17,691,724
Total net position	<u>\$ 26,335,369</u>	<u>\$ 26,140,797</u>	<u>\$ 23,857,417</u>

### *The Operating Statement*

Some of the highlights during fiscal year 2015-2016 include:

- The results of operations generated approximately \$175,000 in net losses.
- The fair value of the Fund's investments increased by \$212,635 during the Fund year.
- The Fund continued to maintain a stable financial position with net position at \$17.7 million

#### **Comparative Condensed Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2016, 2015, and 2014**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating revenues:			
Gross contributions earned	\$ 7,135,402	\$ 6,553,442	\$ 6,583,789
Reinsurance contributions ceded	(2,280,315)	(2,285,376)	(2,356,433)
Premiums paid to insurance carriers	—	—	—
Total operating revenues	4,855,087	4,268,066	4,227,356
Non-operating revenues:			
Investment income	329,776	397,939	278,767
Change in fair value of investments	212,635	165,314	129,631
Total non-operating revenues	542,411	563,253	408,398
Total revenues	5,397,498	4,831,319	4,635,754
Operating expenses:			
Net incurred losses and loss adjustment expenses	3,045,235	3,287,160	1,605,040
Other operating expenses	1,984,464	1,939,287	2,061,413
Total operating expenses	5,029,699	5,226,447	3,666,453
Net income (loss) and changes in Net Position	367,799	(395,128)	969,301
Net Position – beginning of year	17,296,596	17,691,724	16,722,423
Net Position – end of year	\$ 17,664,395	\$ 17,296,596	\$ 17,691,724

Following is a brief description of some of the Fund's significant operating accounts:

## **Contributions**

The Fund provides self-insurance to members in much the same way as insurance companies provide insurance protection for customers. Member contributions are the Fund's main source of revenue and are recorded upon execution of the coverage documents and recognized as earned. These documents between the Fund and its members set forth the coverage terms, agreement period, required contribution, and the obligations of the parties. Coverage for each individual member is based on established rates, adjusted by experience modifiers and discounts to reflect the actual historical loss experience of the member. For the fiscal years ended June 30, 2016, 2015, and 2014 the Fund reported earned contributions of \$4.9 million, \$4.3 million, \$4.2 million, respectively, net of amounts ceded to reinsurers and premiums paid to insurance carriers.

## **Investment Income**

Fixed income investment interest earnings are the Fund's chief source of investment income. The Fund does not engage in the practice of buying or selling investments to produce income from realized gains. The Fund complies with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, by reporting unrealized gains on investments as an income item. Due to changes in fair market value, the Fund recorded unrealized gains of \$212,635 in the 2015-2016 fiscal year, \$165,314 in the 2014-2015 fiscal year and \$129,631 in the 2013-2014 fiscal year. The Fund earned \$329,776 in investment (interest) income for the 2015-2016 year.

In addition, the Fund has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

## **Claim Payments and Reserves**

The Fund processes claims and pays for covered losses experienced by its members. All claims are processed and managed by York Risk Services Group. Attorneys, medical experts, and other professionals are contracted on an as needed basis. Between the time a claim is reported and the time it is resolved, reserves are established for the estimated amount that will have to be paid at some future date to settle losses. Reserves are also established for claims that are estimated to have occurred, but are not yet known to the Fund, as well as development of known claims. This is known as IBNR (incurred but not yet reported) reserves and recognizes losses in the current year for claims that will not be reported until future periods. This process allows a matching of current year contributions with estimated total losses that will be incurred as the result of current fiscal year coverages. Total undiscounted case-based and IBNR reserves at June 30, 2016 and 2015 were approximately \$6,436,000 and \$5,883,000, respectively.

## **Administrative Expenses and Contract Service Fees**

In providing coverage and other member services, the Fund incurs administrative expenses and contract service fees. The Board of Trustees reviews all of these expenses on at least a quarterly basis. Total general administrative expenses were approximately \$2.0 million for fiscal year 2016 and \$1.9 million for 2015, and represented approximately 28% and 30%, respectively, of gross earned contributions.

## **Economic Factors**

The Texas Water Conservation Association Risk Management Fund is tailored to meet the risk management and insurance needs of Texas local water agencies. Its membership reflects the diverse environment of local and regional water operations in Texas and includes groundwater districts, river authorities, water control and

improvement districts, municipal utility districts, special utility districts, drainage districts, port authorities, and irrigation districts.

The Fund has experienced some growth in membership as well as organic growth of existing members. Some members, particularly some of the larger river authorities, have significantly expanded operations to meet growing demands for water. Several members have significant infrastructure expansion projects spanning multiple years.

The commercial insurance market remains fairly competitive. Competition from the standard insurance market underwriting public entity business has remained fairly constant over the last several years. The Fund's primary competitor continues to be another intergovernmental risk pool. In comparing competitor's pricing, when available, the Fund has been very competitive. The Fund's competitive position has resulted in a slow, but steady, increase in new members to the Fund over the last several years.

The Fund will continue to focus on providing members with training programs of proven loss prevention methods that will help reduce the number and severity of future claims. The Board approved expanding these services in recent years as a way to differentiate the Fund. In recent years, the Fund has developed some new, innovative coverage options for its liability coverage. Similarly, in conjunction with the Fund's excess insurance partner for property, the Fund has been able to broaden the property coverage provided to members. Again, a key objective is to differentiate the Fund from its competitors and to meet the evolving risk management and insurance needs of its members.

#### *Requests for Information*

This financial report is designed to provide a general overview of the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to TWCA Risk Management Fund, P.O. Box 26655, Austin, Texas 78755-0655.

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**BALANCE SHEETS  
AS OF JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 9,394,819	\$ 9,333,960
Investments – short-term (Note 3)	1,989,000	–
Contributions receivable from members, including unbilled contributions of \$646,315 and \$263,614 at June 30, 2016 and 2015, respectively (Note 2)	737,655	357,746
Accrued interest	28,692	64,368
Other receivables	–	25,000
Prepaid expenses	2,642,723	48,753
Total current assets	14,792,889	9,829,827
NONCURRENT ASSETS:		
Investments – long-term (Note 3)	11,042,480	15,810,970
Other assets – long-term (Note 9)	500,000	500,000
Total noncurrent assets	11,542,480	16,310,970
TOTAL	<u>\$ 26,335,369</u>	<u>\$ 26,140,797</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Unearned member contributions	\$ 2,101,807	\$ 2,655,266
Other accrued expenses and liabilities	125,154	151,281
Total current liabilities	2,226,961	2,806,547
LONG-TERM LIABILITIES – Reserve for losses and loss adjustment expenses – net of reinsurance (Notes 5 and 6)	6,444,013	6,037,654
Total liabilities	8,670,974	8,844,201
NET POSITION – unrestricted	17,664,395	17,296,596
TOTAL	<u>\$ 26,335,369</u>	<u>\$ 26,140,797</u>
See notes to financial statements.		

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CONTRIBUTIONS:		
Gross contributions earned	\$ 7,135,402	\$ 6,553,442
Reinsurance contributions ceded (Note 6)	(2,280,315)	(2,285,376)
Net earned contributions	4,855,087	4,268,066
LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6)		
Paid losses and loss adjustment expenses – net of deductibles and reinsurance recoveries	2,638,877	1,998,803
Change in reserve for losses and loss adjustment expense – net of deductibles and reinsurance recoverables	406,358	1,288,357
Net incurred losses and loss adjustment expenses	3,045,235	3,287,160
OTHER OPERATING EXPENSES:		
Contract and support fees (Notes 4 and 7)	1,332,549	1,332,082
Loss control fees	363,199	298,114
Legal and professional fees	160,574	169,056
Other expenses	128,142	140,035
Total other operating expenses	1,984,464	1,939,287
OPERATING INCOME (LOSS)	(174,612)	(958,381)
OTHER INCOME:		
Investment income	329,776	397,939
Change in fair value of investments	212,635	165,314
Total other income	542,411	563,253
NET INCOME (LOSS)	367,799	(395,128)
NET POSITION – Beginning of year	17,296,596	17,691,724
NET POSITION – End of year	<u>\$ 17,664,395</u>	<u>\$ 17,296,596</u>

See notes to financial statements.

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES – Contributions:</b>		
Cash received from members	\$ 6,183,404	\$ 7,856,721
Cash paid to reinsurers and insurance carriers	(4,883,172)	(132,886)
Net contributions received	1,300,232	7,723,835
<b>LOSSES – Paid losses and loss adjustment expenses</b>	<b>2,638,877</b>	<b>1,998,803</b>
<b>OTHER OPERATING EXPENSES:</b>		
Payment for contract and support fees	1,348,852	1,315,779
Payment for loss control fees	347,162	300,534
Payment for legal and professional fees	160,589	156,078
Payment for other expenses	101,470	202,332
Total other operating expenses paid	1,958,073	1,974,723
Net cash and cash equivalents provided by (used in) operating activities	(3,296,718)	3,750,309
<b>INVESTING ACTIVITIES:</b>		
Cash received from maturities of investments	23,981,125	4,250,088
Purchase of investments	(20,989,000)	(3,983,125)
Income from investing activities	365,452	410,395
Net cash and cash equivalents provided by (used in) investing activities	3,357,577	677,358
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>60,859</b>	<b>4,427,667</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of year</b>	<b>9,333,960</b>	<b>4,906,293</b>
<b>CASH AND CASH EQUIVALENTS – End of year</b>	<b>\$ 9,394,819</b>	<b>\$ 9,333,960</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (174,612)	\$ (958,381)
Adjustments to reconcile operating income to cash and cash equivalents provided by operating activities – changes in operating assets and liabilities:		
Contributions receivable from members	(379,908)	(61,061)
Other receivables	–	–
Reserve for losses and loss adjustment expense	406,358	1,288,357
Prepaid reinsurance	(2,602,857)	2,152,490
Prepaid expenses	33,887	(61,253)
Other accrued expenses and liabilities	(58,460)	71,876
Unearned member contributions	(521,123)	1,318,281
Net cash and cash equivalents provided by (used in) operating activities	\$ (3,296,715)	\$ 3,750,309
<b>NON-CASH FINANCING &amp; INVESTING ACTIVITIES</b>		
Change in fair value of investments	\$ 212,635	\$ 165,314
Change in investment income accruals	\$ 35,676	\$ 12,457

See notes to financial statements.

# TEXAS WATER CONSERVATION ASSOCIATION RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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### 1. GENERAL STATEMENT

**General Statement** — Texas Water Conservation Association Risk Management Fund (the “Fund” or TWCARMF) is a public entity risk pool composed of four separate self-insurance programs, which were established by the members of Texas Water Conservation Association (the “Association”). The Workers’ Compensation, Liability, and Property programs were established as of July 1, 1988; the Group Benefits program was established as of November 1, 1996. The general objectives for all programs include (a) formulating, developing, and administering a program of self-insurance for its membership; (b) obtaining lower costs for workers’ compensation, property, liability, and group health coverage; and (c) developing a comprehensive safety program. The Fund’s membership consists of approximately 90 water districts and authorities at June 30, 2016. Members join the Fund through interlocal cooperation agreements. Members pay contributions to the Fund for purposes of obtaining coverage against risks associated with workers’ compensation, liability or property. The Fund operates as a risk-sharing pool by assuming the risks related to the contributions paid by each member regardless of whether the group continues to be a participating member of the Association. With the exception of any deductibles or retrospective rated coverage, the members fully transfer their risks to the Fund.

The Group Benefits program was terminated effective May 21, 2015.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Presentation** — The Fund prepares its financial statements using the accrual basis of accounting. The Fund is subject to the pronouncements of the Governmental Accounting Standards Board (GASB) and accounts for its activities as an enterprise fund. This enterprise fund is a single reporting entity and does not have component units; therefore, no separate component unit financial statements are presented.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Member Contributions** — For the Workers’ Compensation, Liability, and Property programs, annual member contributions are earned on a pro-rata basis from the initial coverage date until the annual coverage renewal date, which generally coincides with the Fund’s year-end.

Several members participate in a Minimum Contribution Plan (the “Plan”) for the Workers’ Compensation and Liability programs. The Plan provides coverage on a retrospectively rated basis. Eligibility for participation in the Plan is based on a member’s prior loss experience. Under this Plan, the Fund recognizes contributions based on individual member experience adjusted for a share of total incurred but not reported (IBNR) losses and development of existing losses. The adjustments are made for a three-year retrospective period after the close of each Fund’s year. Contributions earned relating to this Plan were \$510,507 and \$115,719 in 2016 and 2015, respectively. Total Plan receivables were \$646,135 and \$263,614 at June 30, 2016 and 2015, respectively, and consist of unbilled accrued amounts. Plan contributions are earned monthly as members’ loss estimates are updated, and then billed annually as each Fund year matures.

**Cash and Cash Equivalents** — For purposes of financial statement presentation, the Fund considers cash, money market mutual funds, and debt securities with original maturities of less than 90 days at date of purchase to be cash and cash equivalents. Cash and cash equivalents includes approximately \$1,457,829 invested in the TexPool local government investment pool, which is a state-backed investment fund designed and managed to meet the requirements of the Public Funds Investment Act of Texas.

**Investments** — Investments primarily consist of U.S. government agency obligation. The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Fund generally acquires investments with the intent to hold until maturity.

**Use of Estimates** — The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future, as more information becomes known, which could impact the amounts reported and disclosed herein.

**Reserve for Losses and Loss Adjustment Expenses** — The reserve for losses and loss adjustment expenses is based upon the accumulation of case estimates for losses on claims reported and estimates of losses incurred but not reported at year-end, the total of which is reduced for amounts ceded to reinsurers. These estimates include the effects of inflation and other societal and economic factors. Net undiscounted case-based reserves at June 30, 2016 and 2015, totaled approximately \$2,598,000 and \$2,669,000, respectively.

The Fund has elected to discount its reserve for losses and loss adjustment expenses, net of reinsurance credits, in the Workers’ Compensation and Liability programs based on industry trend payout patterns at assumed interest rates of 4% at June 30, 2016 and June 30, 2015.

The total discount at June 30, 2016 and 2015 approximated \$556,000 and \$336,000, respectively. Undiscounted reserves totaled approximately \$6,436,000 and \$5,883,000 at June 30, 2016 and 2015, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimates of reserves are also subject to the effects of the nature of the insurance risks underwritten, the inherent difficulty in estimating the ultimate costs of fully developed claims, and trends in loss severity and frequency. Specifically, Workers' Compensation reserves are subject to state legislation, which could change in the future. They are also subject to future medical treatment requirements and future medical costs, which are both difficult to estimate. Liability reserves are also subject to legislative changes, as well as future court decisions. For these reasons, the ultimate amount of losses and related loss adjustment expenses may vary significantly from the estimated reserves recorded in the financial statements.

Although considerable variability is inherent in such estimates, management records the reserves based on actuarial valuations and believes that the reserve for losses and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

**Acquisition Costs** — All costs related to acquiring new and renewal contracts, if any, are expensed as incurred. Because the end of the Fund's annual coverage period for the Workers' Compensation, Liability, and Property programs generally coincides with its fiscal year-end, this treatment results in the same expense recognition as capitalizing and amortizing these costs.

During the years ended June 30, 2016 and 2015, the Fund incurred no acquisition costs for any of its programs.

**Contribution Deficiency** — The Fund does not consider anticipated investment income in determining whether a contribution deficiency exists. A contribution deficiency for the Fund as a whole did not exist at June 30, 2016 or 2015.

**Status Under Internal Revenue Code** — The Fund has received a favorable ruling from the Internal Revenue Service, such that the income of the Fund is excludable from gross income under Section 115 of the Internal Revenue Code.

### 3. CASH AND INVESTMENTS

The Fund has adopted an investment policy to establish the principles and criteria by which the assets of the Fund should be invested and secured to (1) preserve the principal, (2) provide liquidity for prompt payment of claim expenses, and (3) earn interest. Assets are to be invested and reinvested by the Fund only in eligible securities. The Fund is authorized to invest in certain obligations of the U.S. government or its agencies, certain certificates of deposit, certain repurchase agreements, and those instruments allowed under the Public Funds Investment Act of Texas. To the extent that deposits are not insured, they must be secured by pledged collateral.

**Implementation of GASB Statement No. 72** — The Fund has implemented GASB Statement No. 72; *Fair Value Measurement and Application* as follows.

The Fund holds investments that are measured at fair market value on a continual basis and has determined that the disclosures related to these investment need only be reported by major type.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All the Fund’s investments are considered Level 1.

The costs and fair values of investments in debt securities as of June 30, 2016 and 2015, are as follows:

	<b>Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Fair Value</b>
<b>2016</b>				
Obligations of U.S. government agencies	\$ 13,026,300	\$ 6,240	\$ 1,060	\$ 13,031,480
<b>2015</b>				
Obligations of U.S. government agencies	\$ 16,018,425	\$ 16,510	\$ 223,965	\$ 15,810,970

The costs and fair values by contractual maturity of investments in U.S. government agency securities at June 30, 2016, are as follows:

	<b>Cost</b>	<b>Fair Value</b>
Due within 1 year	\$ 1,989,000	\$ 1,989,000
Due after 1 year through 5 years	7,000,000	7,003,330
Due after 5 years through 10 years	4,037,300	4,039,150
	<u>\$ 13,026,300</u>	<u>\$ 13,031,480</u>

**Investment Risk Factors** — There are many factors that can affect the value of investments. The Fund is exposed to the following risks: interest rate risk, credit risk, concentration of credit risk, custodial credit risk, and foreign currency risk.

### 3. CASH AND INVESTMENTS (CONTINUED)

**Interest Rate Risk** — Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with a longer time to maturity, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations.

The fixed income securities in the Fund's portfolio consisted entirely of obligations of U.S. government agencies during the 2015–2016 and 2014–2015 fiscal years. The weighted average contracted maturities of these securities were 3.68 years and 6.74 years for the 2015–2016 and 2014–2015 fiscal years, respectively.

The Fund's Cash and Investment Management Policy provides that combined cash and investment weighted-average of maturity is not to exceed six years, thus limiting interest rate risk. The total weighted-average maturity of cash and investments as of June 30, 2016 is 2.1 years.

**Credit Risk** — Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. The circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments.

For purposes of managing credit risk, the Fund's Cash and Investment Management Policy requires that all fixed income securities in the Fund's portfolio be obligations of the U.S. government or its agencies and instrumentalities, or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund. While not explicitly guaranteed by the U.S. government, all securities have received an AAA credit rating by Moody's Investor Services and Standard & Poor's.

**Concentration of Credit Risk** — Concentration of credit risk is the risk associated with a lack of diversification, or having too much invested in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, regulatory, geographic, or credit developments.

The Fund's investment policy with respect to the concentration of credit risk is that no one security will represent more than 10% of the total book value of cash and investments at the time of its purchase.

Investments in issuers that represent 5% or more of the total fair value of investments at June 30, 2016 and 2015, are as follows:

<b>Issuer</b>	<b>2016</b>	<b>2015</b>
Federal Home Loan Bank	\$ —	\$ 2,927,690
Federal Home Loan Mortgage Corporation	5,002,270	2,936,960
Federal National Mortgage Association	2,000,350	5,930,270
Federal Farm Credit Bank	4,039,860	4,016,050
US Treasury and Agency Short Term Obligations	1,989,000	—
Total	<u>\$ 13,031,480</u>	<u>\$ 15,810,970</u>

### 3. CASH AND INVESTMENTS (CONTINUED)

**Custodial Credit Risk** — Custodial credit risk is the risk that in the event of the failure of the custodian, the investments may not be returned.

There is no custodial credit risk exposure for the Fund's investments. The custodian, as an agent for the Fund, holds the investments in the Fund's name.

**Foreign Currency Risk** — None of the Fund's investments are denominated in currencies other than U.S. dollars. The Fund has no foreign currency risk.

### 4. RELATED-PARTY CONTRACT SERVICE FEES

The Fund has entered into an agreement with York Risk Services Group (York), whereby York performs all services related to the administration of the Fund's Workers' Compensation, Liability, and Property Programs. Consequently, the Fund has no employees. The Fund and York have separate governing board oversight and do not share ownership. However, as administrator of the Fund, York significantly influences the Fund's management and operating practices; therefore, York is considered a related party to the Fund. Fees paid to York for general program management are based upon a flat fee adjusted for differences between estimated and actual contribution volume for the year. Such fees are classified as contract fees. In addition, for services related to the processing and payment of Fund claims, the Fund remits a flat fee that is adjustable based on the number of current-year claims plus fees for hourly billings related to certain liability claims. This processing fee is included in loss adjustment expenses.

The following amounts have been expensed for program management and claims processing and payment by York:

	2016		2015	
	Program Management	Claims Processing	Program Management	Claims Processing
Workers' Compensation program	\$ 404,656	\$ 117,488	\$ 392,942	\$ 113,750
Liability program	520,273	69,009	505,212	67,005
Property program	231,232	23,328	224,538	22,234
	\$ 1,156,161	\$ 209,825	\$ 1,122,692	\$ 202,989

In addition to the above, the Fund incurred York service fees for the following:

- \$363,199 in 2016 (\$298,114 in 2015) for loss control, consulting, and educational services to Fund members
- \$63,501 in 2016 (\$44,712 in 2015) for medical bill review, pre authorization, case management and Division of Workers' Compensation representation for the Fund

#### 4. RELATED-PARTY CONTRACT SERVICE FEES (CONTINUED)

The Fund pays broker fees to JI Special Risks Insurance Agency, Inc., an affiliated company with York, for placing reinsurance and excess insurance for the Fund. Such fees totaled approximately \$183,840 and \$184,138 in 2016 and 2015, respectively. Such fees are included in reinsurance contributions ceded for financial reporting purposes. York's administrative fees are reduced by the reinsurance and excess broker fees earned.

#### 5. RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The following schedule presents the changes in the reserve for losses and loss adjustment expenses (in thousands):

	<u>2016</u>	<u>2015</u>
Reserve for losses and loss adjustment expenses – beginning of fiscal year	\$ 6,038	\$ 4,749
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	4,365	3,328
Increase (decrease) in provision for insured events of prior fiscal years	<u>(1,320)</u>	<u>(40)</u>
Total incurred losses and loss adjustment expenses	<u>3,045</u>	<u>3,288</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	1,582	826
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	<u>1,057</u>	<u>1,173</u>
Total payments	<u>2,639</u>	<u>1,999</u>
Total reserve for losses and loss adjustment expenses – end of fiscal year	<u>\$ 6,444</u>	<u>\$ 6,038</u>

The foregoing reconciliation reflects prior years' redundancies in 2016 and 2015 of approximately \$1,320,000 and \$40,000, respectively. These changes in reserves are directly related to incurred but not reported reserve changes arising from updated actuarial estimates for prior years.

**6. REINSURANCE**

The Fund has entered into reinsurance agreements to reinsure risks in excess of Fund retention for each accident, occurrence, or claim. The stated maximum limits of coverage, excluding aggregate coverages and Fund retentions, are as follows:

	<b>Workers' Compensation Program</b>	<b>Liability Program</b>	<b>Property Program</b>
Maximum limit of Coverage	Statutory	\$ 10,000,000	\$ 500,000,000
Fund retention	\$ 300,000	\$ 400,000	\$ 200,000

As of June 30, 2016 and 2015, reinsurance credits totaling \$2,350,414 and \$2,315,047, respectively, have been deducted from the reserve for losses and loss adjustment expenses. The Fund recovered \$51,280 and \$80,586 from reinsurance for the fiscal years ended 2016 and 2015, respectively. A contingent liability exists that would become a liability of the Fund in the event that the reinsurers are unable to meet the obligations assumed under the reinsurance agreements. Based on its assessment of the creditworthiness of its reinsurers, management believes that such events are not likely to occur.

**7. ADMINISTRATIVE SUPPORT SERVICES**

The Fund pays the Association a flat fee of \$150,000 for the property/casualty programs and approximately two percent of the fees paid to the Fund’s administrator for the Group Benefits program as approved by the Board of Trustees for (a) assistance in communication with the Fund’s members, and (b) collection of Fund members’ contributions. As of June 30, 2016 and 2015, the following amounts were expensed:

	<b>2016</b>	<b>2015</b>
Workers’ Compensation program	\$ 52,500	\$ 52,500
Liability program	67,500	67,500
Property program	30,000	30,000
Group Benefits program	-	942
	<b>\$ 150,000</b>	<b>\$ 150,942</b>

## **8. CONTINGENCIES**

In the normal course of business, the potential for claims against the Fund exists. Management believes that any potential losses from these claims, individually or in the aggregate, would not be material to the Fund's financial position, results from operations, or cash flows.

## **9. OTHER ASSETS – LONG-TERM**

This item represents an equity contribution to the Fund's reinsurer Government Entities Mutual (GEM). Related to the equity contribution, GEM started providing liability coverage to the Fund effective July 1, 2007. The Fund is eligible to recover its equity after 5 years and based on the sole discretion of GEM's Board of Directors. An employee of the Fund administrator, York, is also a member of GEM's Board of Directors and participates in the oversight of GEM's activities. The Fund accounts for this equity contribution under the cost method.

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**OTHER FINANCIAL INFORMATION**  
(See Independent Auditors' Report)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**BALANCE SHEETS BY PROGRAM  
AS OF JUNE 30, 2016**

	<b>Workers' Compensation Program</b>	<b>Liability Program</b>	<b>Property Program</b>	<b>Total</b>
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 1,103,551	\$ 4,272,932	\$ 4,018,336	\$ 9,394,819
Investments – short-term	1,553,210	435,790	–	1,989,000
Contributions & other receivables from members	714,458	20,989	2,208	737,655
Accrued interest	22,406	6,286	–	28,692
Other receivables	–	–	–	–
Prepaid expenses	572,040	335,927	1,734,756	2,642,723
Total current assets	3,965,665	5,071,924	5,755,300	14,792,889
NONCURRENT ASSETS:				
Investments – long- term	8,623,073	2,419,407	–	11,042,480
Other Assets – long- term	–	500,000	–	500,000
<b>TOTAL</b>	<b>\$ 12,588,738</b>	<b>\$ 7,991,331</b>	<b>\$ 5,755,300</b>	<b>\$ 26,335,369</b>
<b>LIABILITIES</b>				
CURRENT LIABILITIES:				
Unearned member contributions	\$ 336,928	\$ 609,867	\$ 1,155,012	\$ 2,101,807
Other accrued expenses and liabilities	77,317	31,448	16,389	125,154
Total current liabilities	414,245	641,315	1,171,401	2,226,961
LONG-TERM LIABILITIES				
Reserve for losses and loss adjustment expenses – net of reinsurance	4,158,229	1,892,647	393,137	6,444,013
Total liabilities	4,572,474	2,533,962	1,564,538	8,670,974
NET POSITION – unrestricted	8,016,264	5,457,369	4,190,762	17,664,395
<b>TOTAL</b>	<b>\$ 12,588,738</b>	<b>\$ 7,991,331</b>	<b>\$ 5,755,300</b>	<b>\$ 26,335,369</b>

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION BY PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2016**

	Workers' Compensation Program	Liability Program	Property Program	Total
<b>CONTRIBUTIONS:</b>				
Gross contributions earned	\$ 2,765,405	\$ 1,797,512	\$ 2,572,485	\$ 7,135,402
Reinsurance contributions ceded	(462,051)	(345,213)	(1,473,051)	(2,280,315)
Premiums paid to insurance carriers	-	-	-	-
Net earned contributions	2,303,354	1,452,299	1,099,434	4,855,087
<b>LOSSES AND LOSS ADJUSTMENT EXPENSES:</b>				
Paid losses and loss adjustment expenses – net	1,293,132	982,882	362,863	2,638,877
Change in reserve for losses and loss adjustment expenses	417,264	(60,267)	49,361	406,358
Net incurred losses and loss adjustment expense	1,710,396	922,615	412,224	3,045,235
<b>OTHER OPERATING EXPENSES:</b>				
Contract and support fees	483,545	587,772	261,232	1,332,549
Loss control fees	123,591	161,972	77,636	363,199
Legal and professional fees	74,136	24,328	62,110	160,574
Other expense	46,237	63,068	18,837	128,142
Total other operating expenses	727,509	837,140	419,815	1,984,464
OPERATING INCOME (LOSS)	(134,551)	(307,456)	267,395	(174,612)
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	185,911	143,865	-	329,776
Change in fair value of investments	126,054	86,581	-	212,635
Total other income	311,965	230,446	-	542,411
NET INCOME (LOSS)	177,414	(77,010)	267,395	367,799
<b>NET POSITION –</b>				
Beginning of Year	\$ 7,838,850	\$ 5,534,379	\$ 3,923,367	\$ 17,296,596
<b>NET POSITION –</b>				
End of year	\$ 8,016,264	\$ 5,457,369	\$ 4,190,762	\$ 17,664,395

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**  
**(See Independent Auditors' Report)**

# TEXAS WATER CONSERVATION ASSOCIATION RISK MANAGEMENT FUND

## CLAIMS DEVELOPMENT INFORMATION THROUGH THE YEAR ENDED JUNE 30, 2016 (UNAUDITED) (In thousands)

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The following table illustrates how the Fund's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each year since inception. The rows of the table are defined as follows:

- (1) this line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue;
- (2) this line shows each fiscal year's other operating costs of the Fund, including overhead and claims expense not allocable to individual claims;
- (3) this line shows the Fund's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year);
- (4) this section of 10 rows shows the cumulative net amounts paid as of the end of successive years for each policy year;
- (5) this line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year;
- (6) this section of 10 rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years (this annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known);
- (7) this line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
(in thousands)**

	<b>Workers' Compensation</b>									
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
1) Required contribution and investment revenues:										
Earned	3,129	3,141	3,057	3,597	2,785	3,090	2,233	2,257	2,493	2,993
Ceded	(573)	(604)	(544)	(617)	(395)	(392)	(347)	(473)	(450)	(462)
Net earned	2,556	2,537	2,513	2,980	2,390	2,698	1,886	1,784	2,043	2,531
2) Unallocated and other expenses	637	672	725	792	758	726	715	780	744	814
3) Estimated claims and expenses – end of policy year:										
Earned	1,414	1,560	1,789	1,592	1,321	1,343	1,271	1,120	1,729	1,855
Ceded	–	–	–	–	–	–	–	–	(550)	0
Net incurred	1,414	1,560	1,789	1,592	1,321	1,343	1,271	1,120	1,179	1,855
4) Net claims paid (cumulative) as of:										
End of policy	253	349	602	520	389	604	390	299	505	485
One year later	478	637	1,060	917	757	1,032	557	614	997	
Two years later	540	858	1,126	996	745	1,056	569	710		
Three years later	555	1,004	1,118	997	745	1,283	570			
Four years later	579	1,143	1,127	997	746	1,320				
Five years later	589	1,158	1,135	997	746					
Six years later	599	1,176	1,139	997						
Seven years later	607	1,209	1,144							
Eight years later	610	1,227								
Nine years later	613									
5) Reestimated ceded claims and expenses	–	–	–	–	–	(286)	–	–	(636)	–
6) Net reestimated claims and expenses:										
End of policy	1,414	1,560	1,789	1,592	1,321	1,343	1,271	1,120	1,968	1,855
One year later	674	933	1,623	1,350	1,251	1,409	789	880	2,143	
Two years later	635	1,054	1,373	1,294	745	1,519	569	1,007		
Three years later	628	1,176	1,276	1,085	745	1,859	570			
Four years later	739	1,259	1,204	997	746	1,609				
Five years later	736	1,249	1,155	997	745					
Six years later	718	1,336	1,161	997						
Seven years later	709	1,338	1,187							
Eight years later	710	1,340								
Nine years later	721									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(693)	(220)	(602)	(595)	(576)	266	(701)	(113)	964	–

(Continued)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
(in thousands)**

	Liability									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1) Required contribution and investment revenues:										
Earned	1,764	2,109	1,712	1,546	1,464	1,558	1,396	1,764	1,859	1,941
Ceded	(328)	(226)	(246)	(243)	(226)	(298)	(296)	(313)	(318)	(345)
Net earned	1,436	1,883	1,466	1,303	1,238	1,260	1,100	1,451	1,541	1,596
2) Unallocated and other expenses	834	866	721	821	838	804	894	891	831	894
3) Estimated claims and expenses – end of policy year:										
Earned	316	362	362	330	336	307	553	575	649	1,544
Ceded	–	–	–	–	–	–	–	–	–	–
Net incurred	316	362	362	330	336	307	553	575	649	1,544
4) Net claims paid (cumulative) as of:										
End of policy	55	63	79	72	41	101	37	54	47	587
One year later	137	114	160	90	93	388	52	108	100	
Two years later	175	324	178	128	156	476	116	142		
Three years later	258	335	178	155	220	634	306			
Four years later	261	341	178	289	228	678				
Five years later	269	376	178	306	228					
Six years later	269	376	178	313						
Seven years later	269	376	178							
Eight years later	269	376								
Nine years later	269									
5) Reestimated ceded claims and expenses	–	–	–	–	–	–	–	–	–	–
6) Net reestimated claims and expenses:										
End of policy	316	362	362	330	336	307	553	575	649	1,544
One year later	235	373	288	386	232	948	453	662	342	
Two years later	234	425	267	316	225	932	327	486		
Three years later	347	397	178	406	248	789	515			
Four years later	281	372	178	314	228	723				
Five years later	277	381	178	600	227					
Six years later	269	376	177	313						
Seven years later	269	376	172							
Eight years later	270	376								
Nine years later	269									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(47)	14	(190)	(17)	(109)	416	(38)	(89)	(307)	–

(Continued)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
(in thousands)**

	<b>Property</b>									
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
1) Required contribution and investment revenues:										
Earned	1,376	1,314	1,550	1,793	1,954	2,250	2,395	2,445	2,408	2,572
Ceded	(676)	(650)	(705)	(931)	(934)	(1,077)	(1,237)	(1,304)	(1,398)	(1,473)
Net earned	700	664	845	862	1,020	1,173	1,158	1,141	1,010	1,099
2) Unallocated and other expenses	352	384	356	406	395	372	386	419	430	457
3) Estimated claims and expenses – end of policy year:										
Earned	363	479	4,476	577	1,278	517	463	399	370	650
Ceded	–	(77)	(3,783)	–	(617)	–	–	–	–	–
Net incurred	363	402	693	577	661	517	463	399	370	650
4) Net claims paid (cumulative) as of:										
End of policy	193	129	687	227	313	94	129	136	70	300
One year later	212	213	817	289	379	184	145	302	109	
Two years later	214	212	634	287	379	193	145	303		
Three years later	215	212	634	287	379	193	145			
Four years later	215	213	634	287	379	193				
Five years later	213	213	634	287	379					
Six years later	213	213	634	287						
Seven years later	213	213	634							
Eight years later	213	213								
Nine years later	213									
5) Reestimated ceded claims and expenses	(234)	(81)	(3,939)	–	(3)	–	–	–	–	–
6) Net reestimated claims and expenses:										
End of policy	363	401	694	577	660	517	463	399	370	650
One year later	231	213	858	290	405	184	144	346	134	
Two years later	220	212	634	289	379	193	145	321		
Three years later	217	212	634	287	379	193	145			
Four years later	215	213	634	287	380	193				
Five years later	213	213	634	287	380					
Six years later	213	213	633	287						
Seven years later	213	214	634							
Eight years later	213	214								
Nine years later	213									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(150)	(188)	(60)	(290)	(281)	(324)	(318)	(78)	(236)	–

(Continued)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)  
(in thousands)**

	<b>Group Benefits</b>									
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
1) Required contribution and investment revenues:										
Earned	2,988	3,088	2,924	2,617	2,243	2,375	-	-	-	-
Ceded	(1,489)	(1,607)	(1,454)	(1,211)	(854)	(829)	-	-	-	-
Net earned	1,499	1,481	1,470	1,406	1,389	1,546	-	-	-	-
2) Unallocated and other expenses	241	240	239	257	205	171	-	-	-	-
3) Estimated claims and expenses – end of policy year:										
Earned	1,248	1,176	1,296	2,058	2,611	1,588	-	-	-	-
Ceded	-	-	(113)	(334)	(934)	(55)	-	-	-	-
Net incurred	1,248	1,176	1,183	1,724	1,677	1,533	-	-	-	-
4) Net claims paid (cumulative) as of:										
End of policy	1,201	929	969	1,543	1,501	1,250	-	-	-	-
One year later	1,035	1,006	1,064	1,550	1,602	1,301	-	-	-	-
Two years later	1,035	1,006	1,064	1,550	1,602	1,301	-	-	-	-
Three years later	1,035	1,006	1,064	1,550	1,602	1,285	-	-	-	-
Four years later	1,035	1,006	1,064	1,550	1,602	1,285	-	-	-	-
Five years later	1,035	1,006	1,064	1,550	1,602	-	-	-	-	-
Six years later	1,035	1,006	1,064	1,550	-	-	-	-	-	-
Seven years later	1,035	1,006	1,064	-	-	-	-	-	-	-
Eight years later	1,035	1,006	-	-	-	-	-	-	-	-
Nine years later	1,035	-	-	-	-	-	-	-	-	-
5) Reestimated ceded claims and expenses	(356)	-	(113)	(338)	(975)	(55)	-	-	-	-
6) Net reestimated claims and expenses:										
End of policy	1,247	1,176	1,183	1,724	1,678	1,533	-	-	-	-
One year later	1,035	1,006	1,064	1,550	1,602	1,286	-	-	-	-
Two years later	1,035	1,006	1,064	1,550	1,602	1,285	-	-	-	-
Three years later	1,035	1,006	1,064	1,550	1,605	1,285	-	-	-	-
Four years later	1,035	1,006	1,064	1,550	1,602	-	-	-	-	-
Five years later	1,035	1,006	1,064	1,550	-	-	-	-	-	-
Six years later	1,035	1,006	1,064	-	-	-	-	-	-	-
Seven years later	1,035	1,006	-	-	-	-	-	-	-	-
Eight years later	1,035	-	-	-	-	-	-	-	-	-
Nine years later	1,035	-	-	-	-	-	-	-	-	-
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(213)	(170)	(119)	(174)	(75)	(248)	-	-	-	-

(Concluded)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CHANGES IN CLAIMS LIABILITIES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (UNAUDITED)  
(in thousands)**

The schedule below presents the changes in claims and liabilities for the past two years for the Fund's four types of contracts (net of reinsurance):

	Workers' Compensation		Liability		Property	
	2016	2015	2016	2015	2016	2015
RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES – Beginning of year	\$ 3,740	\$ 2,941	\$ 1,953	\$ 1,543	\$ 344	\$ 264
INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES:						
Provision for insured events of the current fiscal year	2,045	2,177	1,647	759	673	392
(Decrease) increase in provision for insured events of prior fiscal years	(335)	(53)	(724)	65	(261)	(54)
Total incurred losses and loss adjustment expenses	1,710	2,124	923	824	412	338
PAYMENTS:						
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	602	619	656	113	323	92
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	690	706	327	301	40	166
Total payments	1,292	1,325	983	414	363	258
TOTAL RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES – End of fiscal year	\$ 4,158	\$ 3,740	\$ 1,893	\$ 1,953	\$ 393	\$ 344