

# Texas Water Conservation Association Risk Management Fund

Audited Financial Statements as of and for the  
Years Ended June 30, 2021 and 2020, Other  
Financial Information as of and for the Year Ended  
June 30, 2021, Required Supplementary Information  
(Unaudited) for the Years Ended June 30, 2021 and  
2020, 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, 2021 and 2020, and the related statements of operations and 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, 2021 and 2020, 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.



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## ***Other Matters***

### ***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.

### ***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, 2021, and the statements of operations and changes in net position by Program for the year ended June 30, 2021, 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*

Austin, Texas  
December 3, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Texas Water Conservation Association Risk Management Fund**  
**Year Ended June 30, 2021 (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, 2021.

**Financial Highlights**

Assets exceeded liabilities at June 30, 2021, by approximately \$23.7 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. In recent years, the Board has approved the anticipated use of a small portion of the Net Position to offset member contributions. To what extent the Net Position is actually drawn down depends largely on actual claims experience for the year.

For fiscal year 2020–2021, Net Position increased by approximately \$1,389,000 due primarily to favorable investment returns, an increase in the market value of the investments and an increase in gross contributions written. The Net Position increased despite an increase to the confidence level used to record the liability for unpaid claims.

**Overview of the Financial Statements**

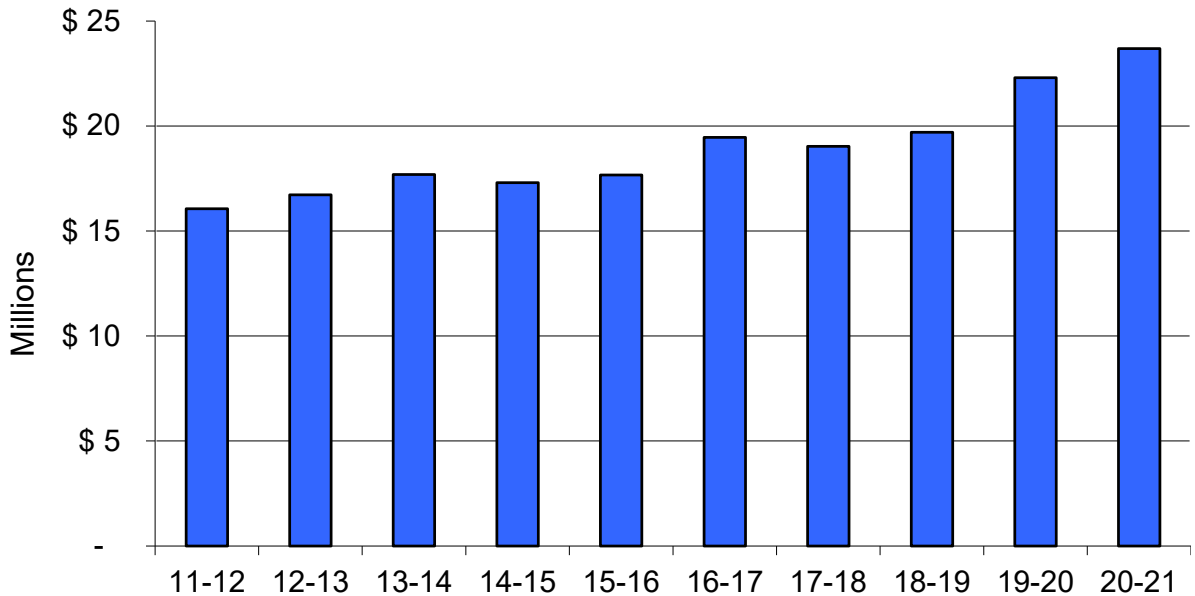
This overview is an introduction to the Fund's financial statements. The Fund's financial statements consist of three components: 1) financial statements and notes, 2) other financial information, and 3) required supplementary information. The financial statements include the Workers' Compensation, Liability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



The Schedule 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, 2021, the Workers' Compensation, Liability and Property Programs all generated positive results of approximately \$324,000, \$17,000 and \$1,048,000, respectively. These results were primarily a result of increases in gross contributions written and investment income.

### 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, 2021*

At approximately \$31.2 million, cash and investments make up 96% of the Fund's total assets as of June 30, 2021. Cash and investments totaled \$27.5 million and \$29.7 million at June 30, 2020 and June 30, 2019, respectively, and represented 96% of the Fund's assets. The Fund's investments are consistent with the Fund's Investment Guidelines and Cash Management Policy which was revised during 2018.

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 \$7.6 million, comprise 86% of total liabilities, as of June 30, 2021. Net reserves totaled \$5.3 million and \$6.6 million at June 30, 2020 and June 30, 2019, respectively, and comprised 84% and 59% of total liabilities. The remaining liabilities related to member contributions paid in advance of the subsequent Fund year and other accrued expenses.

As of June 30, 2021, 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 \$23.7 million.

### **Comparative Condensed Balance Sheets as of June 30, 2021, 2020, and 2019**

	<b>2021</b>	<b>2020</b>	<b>2019</b>
Assets:			
Cash and investments	\$ 31,160,386	\$ 27,522,560	\$ 29,722,447
Other current assets	823,115	653,045	734,716
Other long-term assets	500,000	500,000	500,000
Total assets	<u>\$ 32,483,501</u>	<u>\$ 28,675,605</u>	<u>\$ 30,957,163</u>
Liabilities:			
Current liabilities	\$ 4,702,327	\$ 3,392,113	\$ 6,539,271
Long-term liabilities	4,097,957	2,989,184	4,721,545
Total liabilities	<u>8,800,284</u>	<u>6,381,297</u>	<u>11,260,816</u>
Net Position – unrestricted	<u>23,683,217</u>	<u>22,294,308</u>	<u>19,696,347</u>
Total liabilities and net position	<u>\$ 32,483,501</u>	<u>\$ 28,675,605</u>	<u>\$ 30,957,163</u>

## The Operating Statement

Some of the highlights during fiscal year 2020-2021 include:

- The results of operations generated approximately \$627,000 in operating losses due primarily to the Board of Trustees decision during the fiscal year to increase the confidence level used to estimate the liability for unpaid claims from the 50% to 90% confidence level.
- The fair value of the Fund's investments increased by \$564,105 during the Fund year.
- The Fund continued to maintain a stable financial position with net position at \$23.7 million.

### Comparative Condensed Schedule of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2021, 2020, and 2019

	2021	2020	2019
Operating revenues:			
Gross contributions earned	\$ 10,319,863	\$ 8,855,163	\$ 8,044,740
Reinsurance contributions ceded	(4,234,033)	(3,772,036)	(3,045,014)
Total operating revenues	6,085,830	5,083,127	4,999,726
Non-operating revenues:			
Investment income	1,451,331	1,054,377	712,658
Change in fair value of investments	564,105	642,524	769,384
Total non-operating revenues	2,015,436	1,696,901	1,482,042
Total revenues	8,101,266	6,780,028	6,481,768
Operating expenses:			
Net incurred losses and loss adjustment expenses	4,621,482	2,036,803	3,626,821
Other operating expenses	2,090,875	2,145,264	2,186,367
Total operating expenses	6,712,357	4,182,067	5,813,188
Net income and changes in Net Position	1,388,909	2,597,961	668,580
Net Position – beginning of year	22,294,308	19,696,347	19,027,767
Net Position – end of year	\$ 23,683,217	\$ 22,294,308	\$ 19,696,347



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, effective date of coverage, required contribution, and the obligations of the parties. Coverage for each individual member is based on established rates, adjusted by experience modifiers and other adjustments to reflect the actual historical loss experience of the member. For the fiscal years ended June 30, 2021, 2020, and 2019 the Fund reported earned contributions of \$6.1 million, \$5.1 million, \$5 million, respectively, net of amounts ceded to reinsurers and premiums paid to insurance carriers.

### **Investment Income**

The Fund revised its Investment Guidelines and Cash Management policy during the 2018 fiscal year with the stated objectives as follows:

- 1) Understand the suitability of each investment to the financial requirements of the Fund;
- 2) Preserve and maintain the safety of investment principal;
- 3) Maintain adequate liquidity;
- 4) Retain marketability for each investment, should the need arise to liquidate it prior to maturity;
- 5) Diversify the investment portfolio; and
- 6) Enhance yield.

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 value, the Fund recorded unrealized gains of \$564,105, \$642,524 and \$769,384 as of June 30, 2021, June 30, 2020 and June 30, 2019 respectively. The Fund earned \$1,451,331 in investment (interest) income for the 2020-2021 fiscal year, and \$1,054,377 and \$712,658 for the 2019-2020 and 2018-2019 fiscal years, respectively.

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, a wholly owned subsidiary of Sedgwick, Inc. 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 reported) reserves, and the Fund recognizes losses incurred in the current year for claims that will not be reported until future periods and development of claims reported in prior years. 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 case-based and IBNR reserves at June 30, 2021, 2020 and 2019 were approximately \$6,761,000, \$4,768,000 and \$5,961,000, 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 \$2.1 million for fiscal year 2021, \$2.1 million for 2020, and \$2.2 million in 2019. These expenses represented approximately 20%, 24%, and 27%, respectively, of gross earned contributions.

### **Economic Factors**

The Fund is tailored to meet the risk management and insurance needs of water-related public entities in Texas. 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's membership has been stable over the last year with approximately 90 participating members. The Fund continues to experience some modest top line growth as a result of organic growth of existing members. Some members, particularly some of the larger river authorities, continue to significantly expand their operations to meet growing demands for water. Several members have significant on-going infrastructure expansion projects spanning multiple years. The population of Texas is anticipated to grow by almost 20% over the next ten years, with the demand for water growing commensurately. This growing demand for water will be met through a combination of conservation and new infrastructure projects. Many of the Fund's members participate in regional water planning with a 50 year horizon.

The commercial liability and workers' compensation insurance markets remain tight. The property insurance market remains hard, especially in areas with natural catastrophe exposures such as Texas. On top of continued hailstorms throughout Texas, the freeze event in February 2021 was another blow to the property market in Texas. This hardening results from increasing frequency and severity of flooding, wind and hail in Texas. The global nature of the market means that catastrophes around the world also impact pricing and availability of property insurance in Texas. Double digit increases are common. At the same time, coverage limitations in the form of reduced limits and/or increased deductibles are also common. At this point, there are no signs that these trends will ease in the foreseeable future.

Although the Fund is usually competitive when comparing bottom line pricing, the Fund also provides its members with many value-added services and other intangible benefits not available from competitors. The Fund continues 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 expansion of leadership training provided to members helps to reduce claims, enhances members' operations and leads to a higher level of member satisfaction. The Board remains committed to these value-added services as a way 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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 6,357,972	\$ 2,124,621
Investments – short-term (Note 3)	1,108,571	685,529
Contributions receivable from members, including unbilled contributions of \$430,791 and \$204,971 at June 30, 2021 and 2020, respectively (Note 2)	535,279	271,184
Reinsurance receivable – paid (Note 6)	166,401	212,349
Accrued interest	102,763	121,821
Prepaid expenses	18,672	47,691
Total current assets	8,289,658	3,463,195
NONCURRENT ASSETS:		
Investments – long-term (Note 3)	23,693,843	24,712,410
Other assets – long-term (Note 9)	500,000	500,000
Total noncurrent assets	24,193,843	25,212,410
<b>TOTAL ASSETS</b>	<u>\$ 32,483,501</u>	<u>\$ 28,675,605</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	\$ 3,513,418	\$ 2,340,716
Unearned member contributions	897,265	775,293
Other accrued expenses and liabilities	291,644	276,104
Total current liabilities	4,702,327	3,392,113
LONG-TERM LIABILITIES – Reserve for losses and loss adjustment expenses – net of reinsurance (Notes 5 and 6)	4,097,957	2,989,184
Total liabilities	8,800,284	6,381,297
NET POSITION – unrestricted	23,683,217	22,294,308
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 32,483,501</u>	<u>\$ 28,675,605</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, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CONTRIBUTIONS:		
Gross contributions earned	\$ 10,319,863	\$ 8,855,163
Reinsurance contributions ceded (Note 6)	(4,234,033)	(3,772,036)
Net earned contributions	6,085,830	5,083,127
LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6)		
Paid losses and loss adjustment expenses – net of deductibles, reinsurance recoveries and reinsurance recoverables	2,340,010	3,317,540
Change in reserve for losses and loss adjustment expense – net of deductibles and reinsurance recoverables	2,281,472	(1,280,737)
Net incurred losses and loss adjustment expenses	4,621,482	2,036,803
OTHER OPERATING EXPENSES:		
Contract and support fees (Notes 4 and 7)	1,297,660	1,388,841
Loss control fees	411,634	395,503
Legal and professional fees	175,882	151,877
Other expenses	205,699	209,043
Total other operating expenses	2,090,875	2,145,264
OPERATING INCOME (LOSS)	(626,527)	901,060
OTHER INCOME:		
Investment income	1,451,331	1,054,377
Change in fair value of investments	564,105	642,524
Total other income	2,015,436	1,696,901
NET INCOME	1,388,909	2,597,961
NET POSITION – Beginning of year	22,294,308	19,696,347
NET POSITION – End of year	<u>\$ 23,683,217</u>	<u>\$ 22,294,308</u>

See notes to financial statements.

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>OPERATING ACTIVITIES – Contributions:</b>		
Cash received from members	\$ 10,188,503	\$ 5,375,486
Cash paid to reinsurers	(4,234,932)	(3,772,036)
Net contributions received	5,953,571	1,603,450
LOSSES – Paid losses and loss adjustment expenses	2,294,062	3,382,555
<b>OTHER OPERATING EXPENSES:</b>		
Payment for contract and support fees	1,297,660	1,388,841
Payment for loss control fees	378,304	416,773
Payment for legal and professional fees	164,381	146,941
Payment for other expenses	215,831	163,102
Total other operating expenses paid	2,056,176	2,115,657
Net cash and cash equivalents provided (used) for operating activities	1,603,333	(3,894,762)
<b>INVESTING ACTIVITIES:</b>		
Cash received from maturities of investments	14,728,158	8,073,249
Purchase of investments	(13,568,529)	(8,870,442)
Income from investing activities	1,470,389	1,052,351
Net cash and cash equivalents provided for investing activities	2,630,018	255,158
CHANGE IN CASH AND CASH EQUIVALENTS	4,233,351	(3,639,604)
CASH AND CASH EQUIVALENTS – Beginning of year	2,124,621	5,764,225
CASH AND CASH EQUIVALENTS – End of year	\$ 6,357,972	\$ 2,124,621
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (626,527)	\$ 901,060
Adjustments to reconcile operating income (loss) to cash and cash equivalents provided (used) for operating activities – changes in operating assets and liabilities:		
Contributions receivable from members	(264,095)	152,195
Reinsurance receivable – paid	45,948	(65,015)
Reserve for losses and loss adjustment expense	2,281,475	(1,280,737)
Prepaid reinsurance	(899)	-
Prepaid expenses	29,919	(3,483)
Other accrued expenses and liabilities	15,540	56,859
Unearned member contributions	121,972	(3,655,641)
Net cash and cash equivalents provided (used) for operating activities	\$ 1,603,333	\$ (3,894,762)
<b>NON-CASH FINANCING &amp; INVESTING ACTIVITIES</b>		
Change in fair value of investments	\$ 564,105	\$ 642,524
Change in investment income accruals	\$ (19,058)	\$ 2,026

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, 2021 AND 2020

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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 three 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. A Group Benefits Program was established as of November 1, 1996 and terminated effective May 21, 2015. 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, and liability coverage; and (c) developing a comprehensive safety program. The Fund’s membership consists of approximately 90 water districts and authorities at June 30, 2021. 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.

### 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.

**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 year. Contributions earned relating to the Plan were \$218,643 and \$252,194 in 2021 and 2020, respectively. Total Plan receivables were \$430,791 and \$204,971 at June 30, 2021 and 2020, 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.

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

**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 \$1,040,250 and \$687,672 invested in the TexPool as of June 30, 2021 and June 30, 2020, respectively. TexPool is a 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** — The investment policy allows the Fund to invest in a variety of vehicles including bonds, both government and corporate, publicly traded mutual funds, investment pools and other assets as described in the Fund's Investment and Cash Management policy.

**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.

Total reserves inclusive of case-based reserves and incurred but not reported reserves totaled approximately \$6,761,000 and \$4,768,000 at June 30, 2021 and 2020, respectively.

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.

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

**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, 2021 and 2020, 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, 2021 or 2020.

**Investment Management Fees** — The Fund has engaged an independent investment advisory firm to manage the portfolio. Investment management fees for the years ended June 30, 2021 and 2020 totaled approximately \$99,570 and \$89,170, respectively, and are included in legal and professional fees in the statements of operations and changes in net position.

**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 Board of Trustees has established an investment and cash management policy with the following objectives, in order of priority:

- 1) Understand the suitability of each investment to the financial requirements of the Fund;
- 2) Preserve and maintain the safety of investment principal;
- 3) Maintain adequate liquidity;
- 4) Retain marketability for each investment, should the need arise to liquidate it prior to maturity;
- 5) Diversify the investment portfolio; and
- 6) Enhance yield.



### 3. CASH AND INVESTMENTS (CONTINUED)

Allowable investments under the policy include: U.S. treasuries, U.S. agencies, corporate debt obligations, commercial paper, certificates of deposit, repurchase obligations, money market mutual funds, any direct obligation of any state, county or city, mortgage pass-through securities, collateralized mortgage obligations, and asset-backed securities. These securities will form the core portfolio and normally account for approximately 70% of the holdings. In addition to the items listed above, certain return enhancement investments are allowed under the policy. The Fund may invest in equities, both domestic and foreign, as well as Global Tactical assets, high yield securities and convertible securities. Asset allocation targets are determined based on the Fund's liquidity needs, risk tolerance, and overall financial condition. On a quarterly basis, management evaluates divergence from the targets, due to changes in market value and rebalances as appropriate. The table below reflects the target allocation of the Fund's assets:

Asset Class	Target	Range
<b>Liquidity</b>		
Cash Equivalents	10%	0% - 30%
<b>Core Capital</b>		
Short-Term Fixed Income	10%	0% - 20%
Core Fixed Income	60%	40% - 80%
<b>Return Enhancement</b>		
U.S. Domestic Equity – Large Cap	7%	0% - 10%
U.S. Domestic Equity – Small Cap	3%	0% - 5%
International Equity	5%	0% - 7.5%
Global Tactical Asset Allocation	5%	0% - 7.5%
High Yield	0%	0% - 5%
Convertible Securities	0%	0% - 5%

**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.

**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 Fund attempts to limit the interest rate risk by approximating defined benchmarks. The investment and cash management policy states that; “At no time shall the duration of the non-equity portfolio be outside a +/- 25% range from the appropriate target benchmark defined as the Barclays Capital 1-5 year Government/Corporate (Short Term Fixed Income), and the Barclays Capital Aggregate Index (Core Fixed Income)”.

### 3. CASH AND INVESTMENTS (CONTINUED)

At June 30, 2021 the weighted average maturities of debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Agency Securities	\$ 2,310,122	20.04
U.S. Treasury Securities	4,153,046	12.11
Corporate Bonds	<u>9,094,144</u>	<u>8.96</u>
	\$ <u>15,557,312</u>	<u>11.51</u>

At June 30, 2020 the weighted average maturities of debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Federal Agency Securities	\$ 3,647,466	25.66
U.S. Treasury Securities	1,831,465	21.89
Corporate Bonds	<u>10,256,161</u>	<u>8.04</u>
	\$ <u>15,735,092</u>	<u>13.73</u>

**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.

The Fund’s investment policy is that all bonds held in the portfolio be rated investment grade (“Baa3/BBB – or better) by Moody’s, Standard & Poor’s or Fitch rating services. If circumstances are such that the rating requirements are no longer met, the Fund shall take such action as to satisfy the requirement within 90 days.

At June 30, 2021 and 2020, the credit quality ratings of money market investment pools, alternative investments, and debt securities by investment type (other than the U.S. Treasury securities) are as follows:

### 3. CASH AND INVESTMENTS (CONTINUED)

<u>Investment Type -</u>	<u>Fair Value</u>	<u>Fair Value</u>
<u>Rating</u>	<u>2021</u>	<u>2020</u>
AAA	\$ 367,130	\$ 143,484
AA+	71,300	74,273
AA	312,644	509,670
AA-	407,196	708,279
A+	472,548	696,949
A	1,413,919	2,306,203
A-	2,703,355	2,889,408
BBB+	2,496,725	2,128,653
BBB	340,111	457,409
BBB-	203,508	33,401
Not Rated	<u>305,708</u>	<u>308,432</u>
Total	\$ 9,094,144	\$ 10,256,161

The rating organization used by the Fund to rate its investments was S&P.

**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 states that with the exception of U.S. Treasury and Agency obligations, the fixed-income portfolio may not hold more than 5% of a given issuer at cost. SEC Rule 144A securities are limited to 15% of the non-equity assets at market value. As of June 30, 2021 and 2020, there were no investments in issuers, excluding mutual funds and U.S. government obligations, that represent 5% or more of the total investments.

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

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

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

### 3. CASH AND INVESTMENTS (CONTINUED)

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

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

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

The following tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2021 and 2020:

<u>June 30, 2021</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 5,500,971	\$ —	\$ —	\$ 5,500,971
U.S. Treasuries	4,153,046	—	—	4,153,046
U.S. Govt. - Agencies	—	2,310,122	—	2,310,122
Corporate Issues	—	9,094,144	—	9,094,144
Foreign Issues	—	534,674	—	534,674
Municipal Issues	—	72,001	—	72,001
Mutual Fund - Equity	3,977,319	—	—	3,977,319
Mutual Fund - Fixed	3,330,094	—	—	3,330,094
Mutual Fund - Balanced	1,331,014	—	—	1,331,014
	<u>\$18,292,444</u>	<u>\$12,010,941</u>	<u>\$ —</u>	<u>\$30,303,385</u>

<u>June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash Equivalents	\$ 1,033,671	\$ —	\$ —	\$ 1,033,671
U.S. Treasuries	1,831,465	—	—	1,831,465
U.S. Govt. - Agencies	—	3,647,466	—	3,647,466
Corporate Issues	—	10,256,161	—	10,256,161
Foreign Issues	—	529,116	—	529,116
Municipal Issues	—	74,348	—	74,348
Mutual Fund - Equity	4,006,297	—	—	4,006,297
Mutual Fund - Fixed	3,757,133	—	—	3,757,133
Mutual Fund - Balanced	1,295,953	—	—	1,295,953
	<u>\$11,924,519</u>	<u>\$14,507,091</u>	<u>\$ —</u>	<u>\$26,431,610</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** — Per the investment policy, the Fund maintains a relatively lower percentage of foreign securities to mitigate foreign currency risk.

**4. RELATED-PARTY CONTRACT SERVICE FEES**

The Fund has entered into an agreement with York Risk Services Group (York), a wholly owned subsidiary of Sedgwick, Inc., 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 litigated 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 services provided to the Fund by York:

	2021		2020	
	Program Management	Claims Processing	Program Management	Claims Processing
Workers’ Compensation Program	\$ 390,758	\$ 84,183	\$ 417,026	\$ 124,136
Liability Program	446,581	123,785	476,601	83,087
Property Program	279,113	70,084	297,876	33,804
	<u>\$ 1,116,452</u>	<u>\$ 278,052</u>	<u>\$ 1,191,503</u>	<u>\$ 241,027</u>

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

- \$411,634 in 2021 (\$395,503 in 2020) for loss control, consulting, and educational services to Fund members
- \$26,857 in 2021 (\$32,352 in 2020) 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 \$411,548 and \$363,200 in 2021 and 2020, 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>2021</u>	<u>2020</u>
Reserve for losses and loss adjustment expenses – beginning of fiscal year	\$ 5,330	\$ 6,611
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	4,700	3,663
Increase (decrease) in provision for insured events of prior fiscal years	(79)	(1,626)
Total incurred losses and loss adjustment expenses	<u>4,621</u>	<u>2,037</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	1,356	1,825
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	984	1,493
Total payments	<u>2,340</u>	<u>3,318</u>
Total reserve for losses and loss adjustment expenses – end of fiscal year	<u>\$ 7,611</u>	<u>\$ 5,330</u>

The foregoing reconciliation reflects redundancies of approximately \$80,000 and \$1,626,000 developing in 2020-2021 and 2019-2020, respectively.

**6. REINSURANCE**

The Fund has entered into reinsurance agreements to reinsure risks in excess of the Fund’s self-insured 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	\$ 250,000

As of June 30, 2021 and 2020, reinsurance credits totaling \$8,251,943 and \$3,508,025, respectively, have been deducted from the reserve for losses and loss adjustment expenses. The Fund recovered \$387,065 and \$439,156 from reinsurance during fiscal years 2021 and 2020, respectively. The Fund has elected to report paid reinsurance receivables as current assets in the Balance Sheet. Paid reinsurance receivables totaled \$166,401 and \$212,349 as of June 30, 2021 and June 30, 2020, 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.

The Fund has established reserves on occurrences covered by reinsurers based on information available as of the end of the Fund year.

**7. ADMINISTRATIVE SUPPORT SERVICES**

The Fund pays the Texas Water Conservation Association a flat fee of \$150,000 for the property/casualty programs as approved by the Board of Trustees for (a) assistance in communication with the Fund’s members, (b) collection of Fund members’ contributions, and (c) other activities in support of the Fund. As of June 30, 2021 and 2020, the following amounts were expensed:

	<b>2021</b>	<b>2020</b>
Workers’ Compensation Program	\$ 52,500	\$ 52,500
Liability Program	60,000	60,000
Property Program	37,500	37,500
	<b>\$ 150,000</b>	<b>\$ 150,000</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, 2021**

	<b>Workers' Compensation Program</b>	<b>Liability Program</b>	<b>Property Program</b>	<b>Total</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	\$ (4,244,622)	\$ 5,887,088	\$ 4,715,506	\$ 6,357,972
Investments – short-term	990,841	117,730	–	1,108,571
Contributions & other receivables from members	290,830	226,625	17,824	535,279
Reinsurance Rec. – Paid	71,824	–	94,577	166,401
Accrued interest	91,849	10,914	–	102,763
Prepaid expenses	–	18,672	–	18,672
<b>Total current assets</b>	<b>(2,799,278)</b>	<b>6,261,029</b>	<b>4,827,907</b>	<b>8,289,658</b>
<b>NONCURRENT ASSETS:</b>				
Investments – long- term	21,177,557	2,516,286	–	23,693,843
Other Assets – long- term	–	500,000	–	500,000
<b>TOTAL ASSETS</b>	<b>\$ 18,378,279</b>	<b>\$ 9,277,315</b>	<b>\$ 4,827,907</b>	<b>\$ 32,483,501</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Reserve for losses and loss adjustment expenses – net	\$ 2,059,136	\$ 660,464	\$ 793,818	\$ 3,513,418
Unearned member contributions	29,344	140,081	727,840	897,265
Other accrued expenses and liabilities	178,687	93,849	19,108	291,644
<b>Total current liabilities</b>	<b>2,267,167</b>	<b>894,394</b>	<b>1,540,766</b>	<b>4,702,327</b>
<b>LONG-TERM LIABILITIES</b>				
Reserve for losses and loss adjustment expenses – net of reinsurance	3,228,141	869,816	–	4,097,957
<b>Total liabilities</b>	<b>5,495,308</b>	<b>1,764,210</b>	<b>1,540,766</b>	<b>8,800,284</b>
<b>NET POSITION – unrestricted</b>	<b>12,882,971</b>	<b>7,513,105</b>	<b>3,287,141</b>	<b>23,683,217</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 18,378,279</b>	<b>\$ 9,277,315</b>	<b>\$ 4,827,907</b>	<b>\$ 32,483,501</b>

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**SCHEDULE OF OPERATIONS AND CHANGES IN NET POSITION BY PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Workers' Compensation Program</b>	<b>Liability Program</b>	<b>Property Program</b>	<b>Total</b>
<b>CONTRIBUTIONS:</b>				
Gross contributions earned	\$ 3,036,121	\$ 1,812,834	\$ 5,470,908	\$ 10,319,863
Reinsurance contributions ceded	(758,093)	(451,981)	(3,023,959)	(4,234,033)
Net earned contributions	2,278,028	1,360,853	2,446,949	6,085,830
<b>LOSSES AND LOSS ADJUSTMENT EXPENSES:</b>				
Paid losses and loss adjustment expenses – net	931,369	601,740	806,901	2,340,010
Change in reserve for losses and loss adjustment expenses	1,804,630	396,209	80,633	2,281,472
Net incurred losses and loss adjustment expense	2,735,999	997,949	887,534	4,621,482
<b>OTHER OPERATING EXPENSES:</b>				
Contract and support fees	461,679	519,368	316,613	1,297,660
Loss control fees	144,072	166,320	101,242	411,634
Legal and professional fees	46,455	45,031	84,396	175,882
Other expense	108,088	88,760	8,851	205,699
Total other operating expenses	760,294	819,479	511,102	2,090,875
OPERATING INCOME (LOSS)	(1,218,265)	(456,575)	1,048,313	(626,527)
<b>OTHER INCOME (EXPENSE):</b>				
Investment income	1,110,271	341,060	–	1,451,331
Change in fair value of investments	431,823	132,282	–	564,105
Total other income	1,542,094	473,342	–	2,015,436
NET INCOME	323,829	16,767	1,048,313	1,388,909
NET POSITION – Beginning of Year	\$ 12,559,142	\$ 7,496,338	\$ 2,238,828	\$ 22,294,308
NET POSITION – End of year	\$ 12,882,971	\$ 7,513,105	\$ 3,287,141	\$ 23,683,217

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

# TEXAS WATER CONSERVATION ASSOCIATION RISK MANAGEMENT FUND

## CLAIMS DEVELOPMENT INFORMATION THROUGH THE YEAR ENDED JUNE 30, 2021 (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>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
1) Required contribution and investment revenues:										
Earned	3,090	2,233	2,257	2,493	2,993	2,904	2,918	4,090	4,248	4,578
Ceded	(392)	(347)	(473)	(450)	(462)	(593)	(610)	(689)	(731)	(758)
Net earned	2,698	1,886	1,784	2,043	2,531	2,311	2,308	3,401	3,517	3,820
2) Unallocated and other expenses	726	715	780	744	814	817	895	821	838	771
3) Estimated claims and expenses – end of policy year:										
Earned	1,343	1,271	1,120	1,729	1,855	1,571	1,004	1,345	1,046	3,962
Ceded	–	–	–	(550)	–	–	–	–	–	(2,121)
Net incurred	1,343	1,271	1,120	1,179	1,855	1,571	1,004	1,345	1,046	1,841
4) Net claims paid (cumulative) as of:										
End of policy	604	390	299	505	485	534	318	499	353	404
One year later	1,032	557	614	997	791	871	671	838	498	
Two years later	1,056	569	710	1,175	820	1,010	693	910		
Three years later	1,283	570	768	1,246	867	1,214	693			
Four years later	1,320	570	754	1,293	925	1,251				
Five years later	1,332	570	721	1,339	935					
Six years later	1,342	570	755	1,415						
Seven years later	1,345	570	749							
Eight years later	1,345	570								
Nine years later	1,345									
5) Reestimated ceded claims and expenses	–	–	(43)	(1,356)	–	(61)	–	–	(2,963)	(2,121)
6) Net reestimated claims and expenses:										
End of policy	1,343	1,271	1,120	1,968	1,855	1,571	1,004	1,345	1,046	1,841
One year later	1,409	789	880	1,819	1,013	1,681	903	1,387	1,376	
Two years later	1,519	569	1,007	2,004	995	1,598	693	1,222		
Three years later	1,859	570	778	1,608	1,127	1,835	693			
Four years later	1,609	570	755	1,613	1,067	2,010				
Five years later	1,695	570	746	1,610	1,083					
Six years later	1,733	570	780	1,610						
Seven years later	1,686	570	749							
Eight years later	1,345	570								
Nine years later	1,345									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	2	(701)	(371)	431	(772)	439	(311)	(123)	330	–

(Continued)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

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

	Liability									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1) Required contribution and investment revenues:										
Earned	1,558	1,396	1,764	1,860	1,941	1,671	2,149	2,254	2,229	2,286
Ceded	(298)	(296)	(313)	(318)	(345)	(308)	(293)	(319)	(438)	(452)
Net earned	1,260	1,100	1,451	1,542	1,596	1,363	1,856	1,935	1,791	1,834
2) Unallocated and other expenses	804	894	891	832	894	962	1,024	955	899	926
3) Estimated claims and expenses – end of policy year:										
Earned	307	553	575	649	1,544	684	505	627	693	971
Ceded	–	–	–	–	–	–	–	–	–	–
Net incurred	307	553	575	649	1,544	684	505	627	693	971
4) Net claims paid (cumulative) as of:										
End of policy	101	37	54	47	177	111	74	88	80	157
One year later	388	52	108	101	346	243	319	114	249	
Two years later	476	116	142	123	489	475	470	147		
Three years later	634	306	245	169	678	557	575			
Four years later	678	348	255	169	727	557				
Five years later	693	408	317	173	741					
Six years later	693	433	317	173						
Seven years later	693	433	317							
Eight years later	693	433								
Nine years later	693									
5) Reestimated ceded claims and expenses	–	–	–	–	–	–	–	–	–	–
6) Net reestimated claims and expenses:										
End of policy	307	553	575	649	1,544	684	505	627	693	971
One year later	948	453	662	341	781	561	976	244	526	
Two years later	932	327	486	264	823	737	712	205		
Three years later	789	515	419	199	830	557	786			
Four years later	722	486	378	194	795	557				
Five years later	693	566	317	173	800					
Six years later	693	647	317	173						
Seven years later	693	433	317							
Eight years later	693	433								
Nine years later	693									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	386	(120)	(258)	(476)	(744)	(127)	281	(422)	(167)	–

(Continued)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

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

	<b>Property</b>									
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
1) Required contribution and investment revenues:										
Earned	2,250	2,395	2,445	2,408	2,572	2,849	2,806	3,183	4,075	5,471
Ceded	(1,077)	(1,237)	(1,304)	(1,398)	(1,473)	(1,734)	(1,654)	(2,037)	(2,604)	(3,024)
Net earned	1,173	1,158	1,141	1,010	1,099	1,115	1,152	1,146	1,471	2,447
2) Unallocated and other expenses	372	386	419	430	457	444	524	574	556	575
3) Estimated claims and expenses – end of policy year:										
Earned	517	463	399	370	650	456	5,669	895	1,840	1,335
Ceded	–	–	–	–	–	–	(3,953)	–	(266)	(58)
Net incurred	517	463	399	370	650	456	1,716	895	1,574	1,277
4) Net claims paid (cumulative) as of:										
End of policy	94	129	136	70	710	292	844	564	1,149	517
One year later	184	145	302	108	1,056	588	1,012	970	1,156	
Two years later	193	145	303	109	971	588	1,040	1,182		
Three years later	193	145	303	109	971	590	1,040			
Four years later	193	145	303	109	971	590				
Five years later	193	145	303	109	971					
Six years later	193	145	303	109						
Seven years later	193	145	303							
Eight years later	193	145								
Nine years later	193									
5) Reestimated ceded claims and expenses	–	–	–	–	(98)	–	(2,897)	(77)	(240)	(58)
6) Net reestimated claims and expenses:										
End of policy	517	463	399	370	650	456	1,717	895	1,574	1,277
One year later	184	145	346	134	1,033	637	1,441	1,246	1,168	
Two years later	193	145	321	109	971	588	1,052	1,205		
Three years later	193	145	303	109	971	590	1,040			
Four years later	193	145	303	109	971	590				
Five years later	193	145	303	109	971					
Six years later	193	145	303	109						
Seven years later	193	145	303							
Eight years later	193	145								
Nine years later	193									
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(324)	(318)	(96)	(261)	321	134	(676)	310	(406)	–

(Continued)



**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

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

	Group Benefits									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1) Required contribution and investment revenues:										
Earned	2,375	-	-	-	-	-	-	-	-	-
Ceded	(829)	-	-	-	-	-	-	-	-	-
Net earned	1,546	-	-	-	-	-	-	-	-	-
2) Unallocated and other expenses	171	-	-	-	-	-	-	-	-	-
3) Estimated claims and expenses – end of policy year:										
Earned	1,588	-	-	-	-	-	-	-	-	-
Ceded	(55)	-	-	-	-	-	-	-	-	-
Net incurred	1,533	-	-	-	-	-	-	-	-	-
4) Net claims paid (cumulative) as of:										
End of policy	1,250	-	-	-	-	-	-	-	-	-
One year later	1,301	-	-	-	-	-	-	-	-	-
Two years later	1,300	-	-	-	-	-	-	-	-	-
Three years later	1,285	-	-	-	-	-	-	-	-	-
Four years later	1,285	-	-	-	-	-	-	-	-	-
Five years later	1,285	-	-	-	-	-	-	-	-	-
Six years later	1,285	-	-	-	-	-	-	-	-	-
Seven years later	1,285	-	-	-	-	-	-	-	-	-
Eight years later	1,285	-	-	-	-	-	-	-	-	-
Nine years later	1,285	-	-	-	-	-	-	-	-	-
5) Reestimated ceded claims and expenses	(55)	-	-	-	-	-	-	-	-	-
6) Net reestimated claims and expenses:										
End of policy	1,533	-	-	-	-	-	-	-	-	-
One year later	1,286	-	-	-	-	-	-	-	-	-
Two years later	1,285	-	-	-	-	-	-	-	-	-
Three years later	1,285	-	-	-	-	-	-	-	-	-
Four years later	1,285	-	-	-	-	-	-	-	-	-
Five years later	1,285	-	-	-	-	-	-	-	-	-
Six years later	1,285	-	-	-	-	-	-	-	-	-
Seven years later	1,285	-	-	-	-	-	-	-	-	-
Eight years later	1,285	-	-	-	-	-	-	-	-	-
Nine years later	1,285	-	-	-	-	-	-	-	-	-
7) Increase (decrease) in estimated incurred claims and expenses from end of policy year	(248)	-	-	-	-	-	-	-	-	-

(Concluded)

**TEXAS WATER CONSERVATION ASSOCIATION  
RISK MANAGEMENT FUND**

**CHANGES IN CLAIMS LIABILITIES  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)  
(in thousands)**

The schedule below presents the changes in claims and liabilities by Program for the past two years (net of reinsurance):

	Workers' Compensation		Liability		Property	
	2021	2020	2021	2020	2021	2020
RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES – Beginning of year	\$ 3,481	\$ 3,858	\$ 1,136	\$ 1,993	\$ 713	\$ 760
INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES:						
Provision for insured events of the current fiscal year	2,192	1,229	1,161	825	1,347	1,609
(Decrease) increase in provision for insured events of prior fiscal years	544	(380)	(164)	(1,208)	(459)	(38)
Total incurred losses and loss adjustment expenses	2,736	849	997	(383)	888	1,571
PAYMENTS:						
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	489	478	280	164	587	1,183
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	443	748	321	310	220	435
Total payments	932	1,226	601	474	807	1,618
TOTAL RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES – End of fiscal year	\$ 5,285	\$ 3,481	\$ 1,532	\$ 1,136	\$ 794	\$ 713