

# Texas Council Risk Management Fund

Audited Financial Statements as of and for the  
Years Ended August 31, 2016 and 2015,  
Other Financial Information as of and for the  
Year Ended August 31, 2016,  
Required Supplementary Information (Unaudited)  
for the Year Ended August 31, 2016, and  
Independent Auditors' Report

# TEXAS COUNCIL RISK MANAGEMENT FUND

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## **Independent Auditors' Report**

To the Board of Trustees of  
Texas Council Risk Management Fund:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Texas Council Risk Management Fund (the "Fund"), which comprise the balance sheets as of August 31, 2016 and 2015, 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 Council Risk Management Fund as of August 31, 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.



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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 on pages 3 through 9 and the claims development information and changes in claims liabilities presented on pages 25 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other 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 August 31, 2016, and the statements of operations and changes in net position by program for the year ended August 31, 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.

*Holtzman Partners, LLP*

November 11, 2016

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Texas Council Risk Management Fund**  
**Year Ended August 31, 2016 (Unaudited)**  
**(See Independent Auditors' Report)**

The Texas Council Risk Management Fund (the "Fund") herein sets forth a narrative overview and analysis of its financial activities for the fiscal year ended August 31, 2016.

**Financial Highlights**

Assets exceeded Fund liabilities at August 31, 2016, by approximately \$20.6 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 goals and the needs of its members.

Net Position increased by approximately \$2,689,000 during the 2015-2016 fiscal year. The increase was primarily due to a decrease in actuarial projected losses.

**Overview of the Financial Statements**

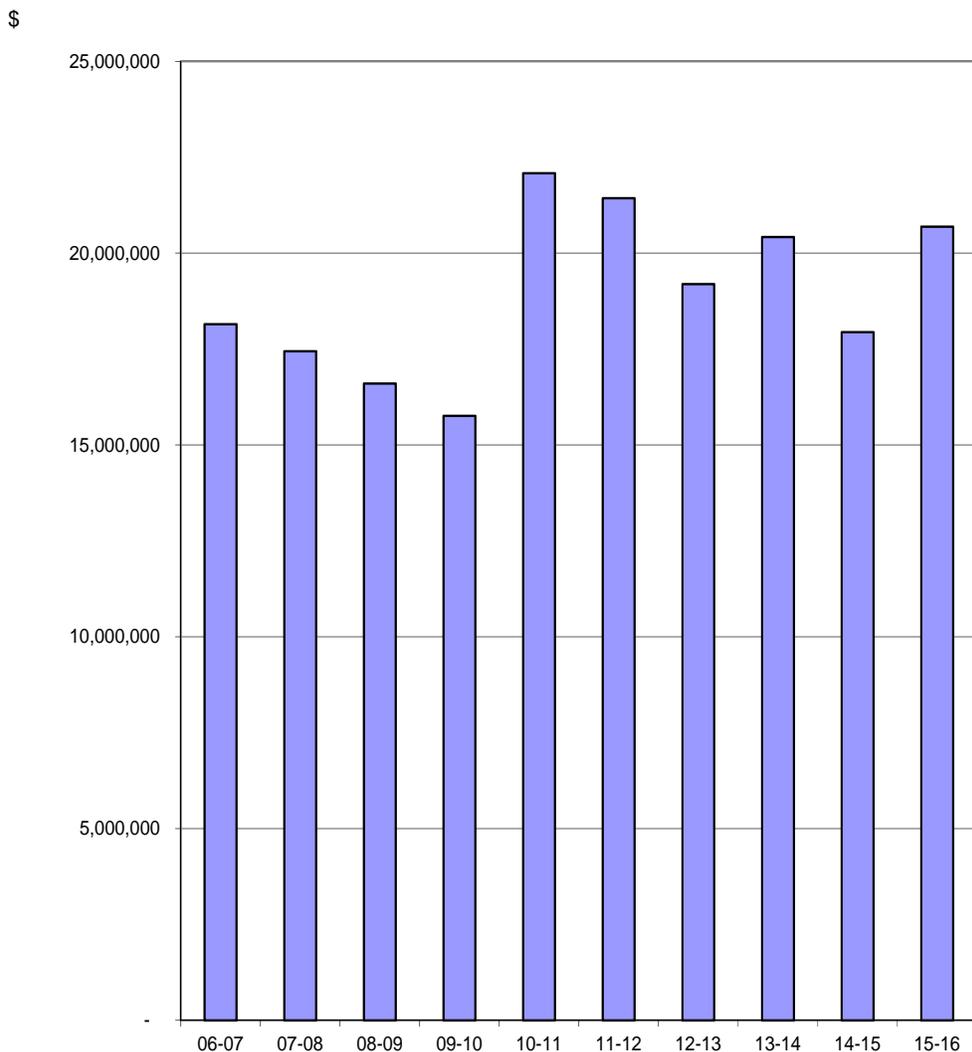
This overview is an introduction to the Fund's financial statements. The Fund's financial statements consist of three components: 1) financial statements and notes, 2) other financial information, and 3) required supplementary information. The financial statements include the Workers' Compensation, Liability, 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 Workers' Compensation, Liability and Property programs are allocated administrative expenses on a monthly basis. All member contributions flow into one central account, which provides the funding for claims payments, unallocated claims expenses, operating expenses, and investments. The financial activities and results of each program are summarized 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. loss and loss adjustment expenses, accrued investment income and reinsurance premiums payable). The basic financial statements begin on page 10.

#### 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. The notes to the financial statements begin on page 13.

## **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 major line of coverage. For the fiscal year ending August 31, 2016, the Workers' Compensation, Liability and Property Programs increased Net Position by approximately \$2,689,000 primarily due to a decrease in actuarial projected losses.

## **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. For a given year, member rates are set in large part based on projected losses. An estimate of projected losses is primarily driven by past claims experience and the development of those claims. Analysis of trends in claims development indicates whether losses are increasing, decreasing or static. Required supplementary information is located on pages 25-29.

## **Financial Analysis for the Fund**

### *The Balance Sheet — August 31, 2016*

At approximately \$27.6 million, cash and investments make up 83% of the Fund's total assets as of August 31, 2016. At August 31, 2015 and 2014, cash and investments made up approximately 90% and 91% of total assets, respectively. The Fund utilizes investment income to supplement contributions.

Actuarial projected reserves decreased by approximately \$891,000 during 2016. The majority of this decrease is directly related to the Fund's developing loss experience in the Liability and Property Programs.

As of August 31, 2016, reserves for losses and loss adjustment expenses, net of reinsurance, of approximately \$11.1 million comprise 89% of total liabilities. At August 31, 2015 and 2014, reserves for losses and loss adjustment expenses as a percent of total liabilities were 90% and 88%, respectively.

As of August 31, 2016, there were no amounts of Net Position that the Fund's Board of Trustees had declared restricted as all such funds were determined necessary for operations of the Fund. At the end of the current fiscal year, Net Position totaled approximately \$20.6 million.

**Comparative Condensed Balance Sheets  
As of August 31, 2016, 2015, and 2014**

	2016	2015	2014
<b>Assets:</b>			
Cash and investments	\$ 27,615,153	\$ 28,008,168	\$ 27,757,629
Other current assets	4,480,737	2,220,748	1,741,674
Long-term assets	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Total assets</b>	<b><u>\$ 33,095,890</u></b>	<b><u>\$ 31,228,916</u></b>	<b><u>\$ 30,499,303</u></b>
<b>Liabilities and equity:</b>			
Current liabilities	\$ 5,640,541	\$ 5,579,537	\$ 5,992,287
Long-term liabilities	<u>6,830,660</u>	<u>7,713,878</u>	<u>4,089,440</u>
<b>Total liabilities</b>	<b>12,471,201</b>	<b>13,293,415</b>	<b>10,081,727</b>
Net position — unrestricted	<u>20,624,689</u>	<u>17,935,501</u>	<u>20,417,576</u>
<b>Total liabilities and net position</b>	<b><u>\$ 33,095,890</u></b>	<b><u>\$ 31,228,916</u></b>	<b><u>\$ 30,499,303</u></b>

*The Operating Statement*

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

- The change to total cash and investments from operations of the Fund includes a decrease of approximately \$393,000, an increase of \$251,000 and an increase of \$71,000 during 2015-2016, 2014-2015 and 2013-2014, respectively. The decrease during the 2015-2016 year was due primarily to prepayment of the 2016-2017 reinsurance premiums.
- Net Position increased by approximately \$2,689,000 during 2015-2016 primarily due to a net decrease in actuarial projected reserves. Net Position decreased by approximately \$2,482,000 during 2014-2015 due primarily to increases in actuarial projected reserves. Finally, Net Position increased by approximately \$1,228,000 during 2013-2014 due primarily to decreases in actuarial reserves and an increase in the market value of investments.
- In 2015-2016, investment income increase by approximately \$224,000 from the prior year due primarily to the adoption of new investment policies and an increase in the range and types of investments. In 2014-2015, investment income increased by approximately \$125,000 from the prior year due to overall higher yields. Investment income was relatively constant from the prior year during 2013-2014.

**Comparative Condensed Statement of Operations and Changes in Net Position, for the Years Ended August 31, 2016, 2015, and 2014**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Gross contributions earned	\$ 11,042,583	\$ 10,559,561	\$ 9,014,545
Reinsurance contributions ceded	<u>(2,423,301)</u>	<u>(2,085,267)</u>	<u>(1,736,072)</u>
Total operating revenues	8,619,282	8,474,294	7,278,473
Non-operating revenues (expenses):			
Investment income	568,417	344,685	220,106
Change in fair value of investments	663,278	62,001	587,720
Excess equity returned to members	<u>-</u>	<u>-</u>	<u>(15,448)</u>
Total non-operating revenue (expenses)	<u>1,231,695</u>	<u>406,686</u>	<u>792,378</u>
Total revenues	<u>9,850,977</u>	<u>8,880,980</u>	<u>8,070,851</u>
Operating expenses:			
Net incurred losses and loss adjustment expenses	4,421,308	8,708,339	4,291,408
General and administrative expenses	<u>2,740,481</u>	<u>2,654,716</u>	<u>2,551,218</u>
Total operating expenses	<u>7,161,789</u>	<u>11,363,055</u>	<u>6,842,626</u>
Net change in net position	2,689,188	(2,482,075)	1,228,225
Net position — beginning of year	<u>17,935,501</u>	<u>20,417,576</u>	<u>19,189,351</u>
Net position — end of year	<u>\$ 20,624,689</u>	<u>\$ 17,935,501</u>	<u>\$ 20,417,576</u>

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 loss experience of the member. The primary factor impacting member rates continues to be claims costs. For the fiscal years ended August 31, 2016, 2015, and 2014, the Fund reported earned contributions of \$8.6 million, \$8.5 million, and \$7.3 million, respectively, net of amounts ceded to reinsurers. The increase in net revenues in 2015-2016 is primarily a result of increases in payroll and exposures. The change in contributions in previous years is primarily a result of the addition of new members and changing member rates based on the Fund's overall loss experience and actuarial projections, and budgeting at a deficit to assist members during a difficult financial period.

## **Investment Income**

Bond interest earnings are the Fund's chief source of investment income; however, in 2015-2016 the Fund expanded the range and type of investments to include corporate and foreign bonds as well as equities in the form of mutual funds. Historically, the Fund has invested only in bonds implicitly guaranteed by the U.S. government. The continued and increasingly lower yields on these types of investments has caused the Fund to reevaluate its position regarding portfolio composition, and to include the afore mentioned corporate bonds, foreign bond and equities in the portfolio mix. The Fund adopted a new investment policy during the year to allow for the inclusion of these new types of investments.

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 and losses on investments as an income item. Due to changes in fair market value, the Fund recorded an unrealized gain of approximately \$663,000, \$62,000 and \$588,000 during 2015-2016, 2014-2015 and 2013-2014, respectively. The Fund earned approximately \$568,000 in investment income for 2015-2016, which was higher than the \$345,000 and \$220,000 earned in 2014-2015 and 2013-2014, respectively. Investment interest income was higher in the current year due to a change in the portfolio composition.

## **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 (York). Attorneys engaged by York on behalf of members, 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 the loss. Reserves are also established for claims that have occurred, but are not yet known to the Fund, and for development of previously reported claims. These reserves are known as IBNR (incurred but not reported) reserves and, the Fund 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 August 31, 2016, net of reinsurance credits were \$2,914,000 and \$7,270,000, 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 administrative expenses represented approximately 25%, 25% and 28% of gross contributions during fiscal 2016, 2015 and 2014, respectively. These fluctuations are due largely to the changes in contributions while expenses have remained relatively constant.

## **Economic Factors**

The Texas Council Risk Management Fund has evolved its products and services to meet the unique needs and operations of community centers in Texas. Over the last year, Fund membership has remained stable. Though the number of members has not grown, the Fund has still enjoyed top line growth as members continue to expand their operations. The Fund's member centers are local governments that provide an invaluable service to individuals with mental health issues, intellectual disabilities and substance abuse problems.

Demand for community center services remains high. In the wake of numerous, seemingly increasing, high profile tragedies such as Columbine High School, Virginia Tech University and Sandy Hook Elementary, the awareness and attention of the general public and law makers is more focused on the need for the types of

services provided by community centers. This has translated to an increase in funding at the state and federal level. The Affordable Care Act is also providing some opportunities for community centers to generate additional revenue and expand their services. Centers across the state are continuing work on numerous projects for expanded services under the Medicaid 1115 Transformation Waiver program established by Texas Health and Human Services and approved by Centers for Medicare and Medicaid Services. This Waiver program has resulted in opportunities for significant expansion of services and new revenue for community centers. This program aims to transform the health care delivery system for low income Texans and includes an increased focus on access to quality behavioral health services.

The commercial insurance market for workers' compensation and liability remains relatively soft. The property market, including in Texas, is stable. Though Texas has not experienced any significant windstorm events in the recent past, an increase in the number and severity of hail storms around the state threatens to tighten the property market. The Fund sees some competition from standard market insurance carriers as well as other governmental risk pools. Though competition is cyclical, the duration of the current competitive cycle remains uncertain.

The Fund's competitive strategy is a defined market niche wherein products and services are developed and delivered based upon an intimate understanding of community centers' operations and their corresponding risks and exposures. The Fund shares a mission with its members of securing valued risk management alternatives designed to match the unique mission and dynamic operations of community centers in Texas. This strong alliance and common objectives fosters a unique loyalty to the Fund.

#### *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 Texas Council Risk Management Fund, P.O. Box 26655, Austin, Texas 78755-0655.

## TEXAS COUNCIL RISK MANAGEMENT FUND

### BALANCE SHEETS AS OF AUGUST 31, 2016 AND 2015

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents (Note 3)	\$ 3,911,537	\$ 14,103,437
Investments — at fair value (Note 3)	601,472	1,000,780
Contributions receivable from members, including unbilled contributions of \$969,968 and \$1,219,842 at August 31, 2016 and 2015, respectively (Note 2)	1,769,611	1,843,662
Accrued interest	107,540	70,024
Other assets	<u>2,603,586</u>	<u>307,062</u>
Total current assets	8,993,746	17,324,965
<b>NONCURRENT ASSETS:</b>		
Investments — Long-term (Note 3)	23,102,144	12,903,951
Other Assets - Long-term	<u>1,000,000</u>	<u>1,000,000</u>
Total noncurrent assets	24,102,144	13,903,951
<b>TOTAL ASSETS</b>	<u><b>\$ 33,095,890</b></u>	<u><b>\$ 31,228,916</b></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	\$ 4,301,489	\$ 4,309,395
Unearned member contributions	870,813	822,508
Other accrued expenses and liabilities	286,447	348,232
Accrued support and contract fees	122,893	27,313
Excess equity due to members (Note 8)	<u>58,899</u>	<u>72,089</u>
Total current liabilities	5,640,541	5,579,537
<b>NONCURRENT LIABILITIES:</b>		
Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	<u>6,830,660</u>	<u>7,713,878</u>
Total liabilities	<u>12,471,201</u>	<u>13,293,415</u>
CONTINGENCIES (Note 9)	-	-
<b>NET POSITION - UNRESTRICTED</b>	<u><b>20,624,689</b></u>	<u><b>17,935,501</b></u>
<b>TOTAL LIABILITIES AND UNRESTRICTED NET POSITION</b>	<u><b>\$ 33,095,890</b></u>	<u><b>\$ 31,228,916</b></u>
<i>See notes to financial statements.</i>		

## TEXAS COUNCIL RISK MANAGEMENT FUND

### STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CONTRIBUTIONS:		
Gross earned contributions	\$ 11,042,583	\$ 10,559,561
Reinsurance contributions ceded (Note 6)	<u>(2,423,301)</u>	<u>(2,085,267)</u>
Net earned contributions	<u>8,619,282</u>	<u>8,474,294</u>
LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6):		
Paid losses and loss adjustment expenses	5,312,453	5,545,153
Change in reserve for losses and loss adjustment expenses	<u>(891,145)</u>	<u>3,163,186</u>
Net incurred losses and loss adjustment expenses	<u>4,421,308</u>	<u>8,708,339</u>
OTHER OPERATING EXPENSES:		
Contract and support fees (Notes 4 and 7)	1,612,282	1,514,980
Loss control (Note 4)	765,757	704,330
Legal and professional fees	118,994	120,870
Other expenses	<u>243,448</u>	<u>314,536</u>
Total other operating expenses	<u>2,740,481</u>	<u>2,654,716</u>
OPERATING INCOME (LOSS)	1,457,493	(2,888,761)
OTHER INCOME (EXPENSE):		
Investment income	568,417	344,685
Change in fair value of investments	<u>663,278</u>	<u>62,001</u>
Total other income (expense)	1,231,695	406,686
CHANGE IN NET POSITION - UNRESTRICTED	2,689,188	(2,482,075)
NET POSITION - UNRESTRICTED — Beginning of year	<u>17,935,501</u>	<u>20,417,576</u>
NET POSITION - UNRESTRICTED — End of year	<u>\$ 20,624,689</u>	<u>\$ 17,935,501</u>

*See notes to financial statements.*

# TEXAS COUNCIL RISK MANAGEMENT FUND

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Contributions:		
Cash received from members	\$ 11,431,581	\$ 10,157,513
Cash paid to reinsurers (Note 6)	<u>(4,890,737)</u>	<u>(2,085,267)</u>
Net contributions received	<u>6,540,844</u>	<u>8,072,246</u>
Losses — paid losses and paid loss adjustment expenses (Notes 5 and 6)	<u>5,312,453</u>	<u>5,545,153</u>
Expenses:		
Payments for contract and support fees (Notes 4 and 7)	1,516,702	1,592,790
Payments for loss control (Note 4)	773,770	723,276
Payments for legal and professional fees	118,994	120,870
Payments for other expenses	406,119	219,861
Excess equity returned to members	-	-
Total expenses paid	<u>2,815,585</u>	<u>2,656,797</u>
Cash used in operating activities	<u>(1,587,194)</u>	<u>(129,704)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received from maturities of investments	26,938,073	20,135,683
Purchase of investments	(36,073,680)	(12,989,136)
Income from investing activities	<u>530,901</u>	<u>318,241</u>
Net cash provided by investing activities	<u>(8,604,706)</u>	<u>7,464,788</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(10,191,900)	7,335,084
CASH AND CASH EQUIVALENTS — Beginning of year	<u>14,103,437</u>	<u>6,768,353</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 3,911,537</u>	<u>\$ 14,103,437</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ 1,457,493	\$ (2,888,761)
Adjustments to reconcile operating income (loss) to cash used in operating activities:		
Changes in operating assets and liabilities:		
Contributions receivable from members and other receivables	74,051	(211,944)
Changes in other assets	(2,296,524)	(240,686)
Reserve for losses and loss adjustment expenses	(891,145)	3,163,186
Accrued loss control fees	(8,013)	(18,946)
Other accrued expenses and liabilities	41,829	16,621
Excess equity due to members	<u>35,115</u>	<u>50,826</u>
CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,587,194)</u>	<u>\$ (129,704)</u>
NONCASH ACTIVITIES — Change in fair value of investments	<u>\$ 663,278</u>	<u>\$ 62,001</u>

See notes to financial statements.

# TEXAS COUNCIL RISK MANAGEMENT FUND

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

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### 1. GENERAL

Texas Council Risk Management Fund (the “Fund”) is a public entity risk pool, comprised of three self-insurance programs, that was established by community centers in Texas. The Workers’ Compensation, Liability, and Property Programs were established on September 1, 1988. The general objectives of 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 insurance; and (c) developing a comprehensive safety and loss control program. Members of the Texas Council of Community Centers (trade association) participate in the Fund through interlocal agreements. 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 Fund. Members also agree to cooperate in the implementation of the Fund’s loss control recommendations. At August 31, 2016, 32 of the 39 community centers across the state are members of the Fund.

The Fund’s three programs (Workers’ Compensation, Liability, and Property) are combined in the accompanying financial statements.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Presentation** — The Fund’s financial statements are prepared 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.

The Fund has adopted GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement 62 is effective for financial statements for periods beginning after December 15, 2011. The adoption of Statement 62 did not have a significant impact on the Fund’s financial statements.

## 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 typically coincides with the Fund's year-end. Most members participate in a Minimum Contribution Plan (the "Plan") for the Workers' Compensation Program. The Plan provides coverage on a retrospectively rated basis.

Under this Plan, the Workers' Compensation Program recognizes workers' compensation contributions based on individual member experience adjusted for a share of total Workers' Compensation Program incurred but not reported (IBNR) losses and development of existing losses. The Minimum Contribution Plan adjustments are processed on an annual basis over a 6-year period. The first through fifth adjustments are based on each member's reported losses. The sixth and final adjustment is based on reported losses, plus an allocation for the overall program IBNR losses and development of existing losses. Net contributions earned relating to this Plan were approximately \$23,000 in 2016 and \$244,000 in 2015. Total Plan receivables are \$969,968 and \$1,219,842 at August 31, 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 less than ninety days from date of purchase as cash and cash equivalents.

**Investments** — Investments consist of U.S. government treasuries, agency obligations, corporate bonds, foreign bonds and equities in the form of mutual funds.

**Prepaid Reinsurance** — The Fund had prepaid reinsurance for the 2015-2016 Fund year of \$2,467,435.

**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-basis-only reserves at August 31, 2016 and 2015, respectively, totaled approximately \$2,914,000 and \$4,148,000.

The Fund has not discounted reserves since the 2008 Fund year for the Workers' Compensation and Liability Programs. Total undiscounted reserves (i.e., case-basis reserves plus IBNR reserves) were approximately \$11,132,000 and \$12,023,000 at August 31, 2016 and 2015, respectively.

Reserves due within one year totaled \$4,301,489. The remaining \$6,830,660 in reserves are anticipated to be paid after one year.

## 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 benefits as outlined in Texas Labor Code, 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 potential 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.

**Revenues and Expenses** — The Fund distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Fund's principle ongoing operations. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**Acquisition Costs** — All costs related to acquiring new and renewal contracts 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 August 31, 2016 and 2015, the Fund incurred no acquisition costs for any of its programs.

**Reinsurance** — Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

**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 August 31, 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

Prior to the 2015-2016 Fund year, the Fund operated under the Public Funds Investment Act of Texas. Under the Act, allowable investments included obligations of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States; obligations of states, agencies, counties, cities, and other political subdivisions; certificates of deposit; repurchase agreements; bankers' acceptances; commercial paper; mutual funds; and investment pools. Certain investment types were required to meet specific requirements related to maturity, rating, and collateralization to qualify as authorized investments. At August 31, 2015, the Fund held U.S. agency debt with a fair market value of \$13,904,731.

During the 2015-2016 Fund year, the Fund implemented a new investment and cash management policy in response to continuing low yields. The purposes of the new policy, in order of priority, are as follows:

- 1) Preserve and safeguard the principal;
- 2) Provide liquidity for prompt payment of expenses of and claims against the Fund;
- 3) Provide for diversification to manage market risks; and
- 4) Provide yield.

Allowable investments under the new 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, 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 will be determined based on the Fund's liquidity needs, risk tolerance, and overall financial condition. On a quarterly basis, management will evaluate divergence from the targets, due to changes in market value and will rebalance as appropriate. The table below reflects the target allocation of the Fund's assets:

<b>Asset Class</b>	<b>Target</b>	<b>Range</b>
<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%

### 3. CASH AND INVESTMENTS (CONTINUED)

**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)”.

**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.

**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, 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 August 31, 2016 and 2015, 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” 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 investments 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.

### 3. CASH AND INVESTMENTS (CONTINUED)

The Fund has the fair value measures as of August 31, 2016 as follows:

Level 1: \$14,779,364 composed of Cash equivalents, U.S. Government Treasury bonds, Equity Mutual Funds, Fixed-Income Mutual Funds and Balanced Mutual Funds

Level 2: \$12,835,789 composed of U.S. Government Agency Bonds, Corporate Bonds, Foreign Bonds and Municipal Bonds.

The Fund has the fair value measures as of August 31, 2015 as follows:

Level 1: \$14,103,437 composed of Cash equivalents

Level 2: \$13,904,731 composed of U.S. Government Agency Bonds

The table below reflects the Fund's portfolio composition as of August 31, 2016 and 2015:

Asset Class	08/31/16	%	08/31/15	%
Cash Equivalents	\$3,911,537	14.11%	\$14,103,437	50.23%
U.S. Government Issues	7,803,077	28.15%	13,904,731	49.52%
Corporate Issues	7,145,632	25.78%	—	0.00%
Foreign Issues	474,642	1.71%	—	0.00%
Municipal Issues	1,041,487	3.76%	—	0.00%
Mutual Fund-Equity	3,403,909	12.28%	—	0.00%
Mutual Fund – Fixed	2,714,769	9.79%	—	0.00%
Mutual Fund-Balanced	1,120,100	4.04%	—	0.00%
<b>Total</b>	<b>\$27,615,153</b>	<b>99.61%</b>	<b>\$28,008,168</b>	<b>99.75%</b>
Accrued Interest	107,540	.39%	70,024	0.25%
<b>Grand Total</b>	<b>\$27,722,693</b>	<b>100.00%</b>	<b>\$28,078,192</b>	<b>100.00%</b>

**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's 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), whereby York performs all services related to the administration of the Fund. 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 its management and operating practices and is a related party to the Fund.

For the Workers' Compensation, Liability, and Property Programs, fees paid to York for general program management are based upon a flat fee adjusted for significant differences between estimated and actual total net operating expenditures of all member centers. Such fees are included in contract and support fees in the accompanying financial statements. In addition, for services related to the processing and payment of Fund claims, the Fund remits a flat fee, plus fees for hourly billings related to general liability, professional liability, and errors and omissions claims. Claims fees also include fees for medical bill review, preauthorization, and Division of Workers' Compensation representation services. These claims fees are included in loss adjustment expenses.

The following amounts were incurred for program management and claims processing and payment services:

	<b>2016</b>		<b>2015</b>	
	<b>Management</b>	<b>Processing</b>	<b>Management</b>	<b>Processing</b>
Workers' Compensation Program	\$ 877,369	\$ 389,760	\$ 818,988	\$ 356,086
Liability Program	438,685	188,217	409,494	167,031
Property Program	<u>146,228</u>	<u>54,810</u>	<u>136,498</u>	<u>49,854</u>
	<u>\$ 1,462,282</u>	<u>\$ 632,787</u>	<u>\$ 1,364,980</u>	<u>\$ 572,971</u>

In addition to the above, the Fund incurred approximately \$560,324 in 2016 and \$577,590 in 2015 to York for loss control, consulting, building appraisals, and educational services to Fund members.

The Fund pays brokerage fees to JI Special Risks Insurance Agency, Inc., a related company to York, for acquiring reinsurance for the Fund. Such fees totaled \$191,191 in 2016 and \$171,224 in 2015.

## 5. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

The changes in the reserve for losses and loss adjustment expenses, net of reinsurance at August 31, 2016 and 2015, are as follows (in thousands):

	2016	2015
Reserve for losses and loss adjustment expenses — beginning of fiscal year	\$ 12,023	\$ 8,860
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	9,439	10,247
Decrease in provision for insured events of prior fiscal years	<u>(5,018)</u>	<u>(1,539)</u>
Total incurred losses and loss adjustment expenses	<u>4,421</u>	<u>8,708</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	3,409	3,534
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	<u>1,903</u>	<u>2,011</u>
Total payments	<u>5,312</u>	<u>5,545</u>
Reserve for losses and loss adjustment expenses — end of fiscal year	<u>\$ 11,132</u>	<u>\$ 12,023</u>

As reflected in the Balance Sheets, losses and loss adjustment expenses are divided between current and noncurrent liabilities. Current liabilities related to reserves totaled \$4,301,000 and long-term liabilities totaled \$6,831,000.

The forgoing reconciliation shows \$5,018,000 of favorable development in the August 31, 2015 reserve emerged in 2016 and \$1,539,000 of favorable development in the August 31, 2014 reserve emerged in 2015. During 2016 and 2015, favorable development occurred in all programs: Workers' Compensation, Liability and Property.

## 6. REINSURANCE

The Fund has entered into reinsurance agreements to reinsure risk in excess of a stated Fund retention. The stated maximum limits of coverage, excluding aggregate coverages, and Fund retentions are as follows:

	Workers' Compensation Program	General Liability/Auto Liability	Professional Liability	Errors and Omissions	Property Program
Maximum limit of coverage	Statutory	* \$ 5,000,000	\$ 5,000,000	\$5,000,000	\$350,000,000
Fund retention	500,000	300,000	300,000	300,000	150,000

\* Injured workers continue to have statutory coverage.

**6. REINSURANCE (CONTINUED)**

The Fund’s retention levels are \$500,000, \$300,000 and \$150,000 for all lines of the Workers’ Compensation, Liability and Property Programs, respectively.

As of August 31, 2016 and 2015, reinsurance credits totaling \$2,198,813 and \$2,334,097, respectively, were deducted from the reserve for losses and loss adjustment expenses.

A contingent liability exists which would become a liability of the Fund in the event that the reinsurers are unable to meet the obligations assumed under the reinsurance agreements.

**7. ADMINISTRATIVE SUPPORT SERVICES**

The Fund pays the Texas Council of Community Centers a fee, which is approved by the Board of Trustees for (a) promotion and marketing support services, (b) assistance in communication with the Fund’s members, and (c) collection and management of the Fund’s members’ contributions. The annual fee is \$150,000 for the Workers’ Compensation, Liability, and Property Programs. The following amounts were expensed in 2016 and 2015 and are included in contract and support fees in the accompanying financial statements.

	<b>2016</b>	<b>2015</b>
Workers’ Compensation Program	\$ 90,000	\$ 90,000
Liability Program	45,000	45,000
Property Program	15,000	15,000
	<hr/>	<hr/>
	\$ 150,000	\$ 150,000
	<hr/>	<hr/>

**8. EXCESS NET POSITION RETURNED TO MEMBERS**

The Fund’s Board of Trustees designates a portion of the Net Position to fund and provide for greater predictability and stability of annual cash contributions, which is reflected as excess Net Position returned to members on the statement of operations. Members could take the amount of MCP paid during 2014 as a credit in 2015. Amounts paid for MCP in 2015 were automatically deducted from monthly Workers’ Compensation payments during 2016.

**9. CONTINGENCIES**

In the normal course of business, certain claims, and lawsuits are filed against the Fund. Management believes that any losses from any lawsuits, individually or in the aggregate, will not be material to the Fund’s financial position, results of operations, or cash flows.

**10. 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 December 2003. The Fund is eligible to recover its equity after 5 years and based on the sole discretion of GEM’s Board of Directors. Two employees of the Fund administrator, York, are also members of GEM’s Board of Directors and participate 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 COUNCIL RISK MANAGEMENT FUND

## BALANCE SHEET BY PROGRAM AS OF AUGUST 31, 2016

	Workers' Compensation Program	Liability Program	Property Program	Total
<b>ASSETS</b>				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 3,922,136	\$ (1,681,450)	\$ 1,670,851	\$ 3,911,537
Investments	334,703	266,769	-	601,472
Contributions receivable from members	1,701,847	28,902	38,862	1,769,611
Accrued interest	60,115	47,425	-	107,540
Other receivables	531,124	642,706	1,429,756	2,603,586
	<u>6,549,925</u>	<u>(695,648)</u>	<u>3,139,469</u>	<u>8,993,746</u>
INVESTMENTS — Long-term	12,915,709	10,186,435	-	23,102,144
OTHER ASSETS - Long-term	1,000,000	-	-	1,000,000
	<u>13,915,709</u>	<u>8,894,813</u>	<u>-</u>	<u>24,102,144</u>
TOTAL	<u>\$ 20,465,634</u>	<u>\$ 9,490,787</u>	<u>\$ 3,139,469</u>	<u>\$ 33,095,890</u>
<b>LIABILITIES AND NET POSITION</b>				
CURRENT LIABILITIES:				
Reserves for losses and loss adjustment expenses — net of reinsurance	\$ 1,821,507	\$ 2,336,000	\$ 143,982	\$ 4,301,489
Unearned member contributions	870,813	-	-	870,813
Accrued support and contract fees	73,736	36,868	12,289	122,893
Other accrued expenses and liabilities	204,732	52,578	29,137	286,447
Excess equity due to members	23,236	19,980	15,683	58,899
Total current liabilities	<u>2,994,024</u>	<u>2,445,426</u>	<u>201,091</u>	<u>5,640,541</u>
NONCURRENT LIABILITIES:				
Reserves for losses and loss adjustment expenses — net of reinsurance	4,183,932	2,453,323	193,405	6,830,660
Total liabilities	<u>7,177,956</u>	<u>4,898,749</u>	<u>394,496</u>	<u>12,471,201</u>
CONTINGENCIES	-	-	-	-
NET POSITION - UNRESTRICTED	<u>13,287,678</u>	<u>4,592,038</u>	<u>2,744,973</u>	<u>20,624,689</u>
TOTAL	<u>\$ 20,465,634</u>	<u>\$ 9,490,787</u>	<u>\$ 3,139,469</u>	<u>\$ 33,095,890</u>

# TEXAS COUNCIL RISK MANAGEMENT FUND

## STATEMENT OF OPERATIONS AND CHANGES IN NET POSITION BY PROGRAM FOR THE YEAR ENDED AUGUST 31, 2016

	Workers' Compensation Program	Liability Program	Property Program	Total
CONTRIBUTIONS:				
Gross earned contributions	\$ 4,930,409	\$ 3,251,219	\$ 2,860,955	\$11,042,583
Reinsurance contributions ceded	<u>(562,527)</u>	<u>(450,448)</u>	<u>(1,410,326)</u>	<u>(2,423,301)</u>
Net earned contributions	<u>4,367,882</u>	<u>2,800,771</u>	<u>1,450,629</u>	<u>8,619,282</u>
LOSSES AND LOSS ADJUSTMENT EXPENSE:				
Paid losses and loss adjustment expenses	2,326,615	2,617,409	368,429	5,312,453
Change in reserve for losses and loss adjustment expenses	<u>711,664</u>	<u>(1,415,258)</u>	<u>(187,551)</u>	<u>(891,145)</u>
Net incurred losses and loss adjustment expense	<u>3,038,279</u>	<u>1,202,151</u>	<u>180,878</u>	<u>4,421,308</u>
EXPENSES:				
Contract and support fees	967,369	483,685	161,228	1,612,282
Loss control	474,754	211,877	79,126	765,757
Legal and professional fees	57,099	25,549	36,346	118,994
Other expenses	<u>133,660</u>	<u>95,807</u>	<u>13,981</u>	<u>243,448</u>
Total expenses	<u>1,632,882</u>	<u>816,918</u>	<u>290,681</u>	<u>2,740,481</u>
Operating income (loss)	(303,279)	781,702	979,070	1,457,493
OTHER INCOME (EXPENSE):				
Investment income	312,354	256,063	-	568,417
Change in fair value of investments	<u>387,827</u>	<u>275,451</u>	<u>-</u>	<u>663,278</u>
Total other income (expense)	700,181	531,514	-	1,231,695
Increase in Net Position	396,902	1,313,216	979,070	2,689,188
NET POSITION — Beginning of year	<u>12,890,776</u>	<u>3,278,822</u>	<u>1,765,903</u>	<u>17,935,501</u>
NET POSITION — End of year	<u>\$ 13,287,678</u>	<u>\$ 4,592,038</u>	<u>\$ 2,744,973</u>	<u>\$20,624,689</u>

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

## TEXAS COUNCIL RISK MANAGEMENT FUND

### CLAIMS DEVELOPMENT INFORMATION THROUGH YEAR ENDED AUGUST 31, 2016 (UNAUDITED)

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The following tables illustrate how the Fund's earned revenues (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 for the past 10 years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution and 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 rows shows the cumulative net claims and allocated 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 rows shows how each policy year's cumulative net incurred claims and allocated claim adjustment expenses 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, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated net incurred claims and allocated claim adjustment expenses amount to the amount originally established (line 3) and shows whether the latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

(Continued)

# TEXAS COUNCIL RISK MANAGEMENT FUND

## CLAIMS DEVELOPMENT INFORMATION FISCAL AND POLICY YEAR ENDED (UNAUDITED) (In thousands)

	Workers' Compensation									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1) Required contribution and investment revenues:										
Earned	\$ 7,476	\$ 6,848	\$ 5,206	\$ 5,920	\$ 4,616	\$ 4,233	\$ 3,385	\$ 4,434	\$ 5,232	\$ 5,243
Ceded	(486)	(465)	(468)	(516)	(353)	(314)	(317)	(397)	(470)	(563)
Net earned	<u>6,990</u>	<u>6,383</u>	<u>4,738</u>	<u>5,404</u>	<u>4,263</u>	<u>3,919</u>	<u>3,068</u>	<u>4,037</u>	<u>4,762</u>	<u>4,680</u>
2) Unallocated claims and other expenses	<u>1,578</u>	<u>1,750</u>	<u>1,884</u>	<u>1,917</u>	<u>1,816</u>	<u>1,808</u>	<u>1,731</u>	<u>1,886</u>	<u>1,881</u>	<u>2,023</u>
3) Estimated claims and expenses from end of policy year:										
Earned	3,248	4,732	5,372	4,722	3,201	2,396	2,834	3,245	2,826	3,538
Ceded	-	-	(139)	-	-	-	-	(147)	-	-
Net incurred	<u>3,248</u>	<u>4,732</u>	<u>5,233</u>	<u>4,722</u>	<u>3,201</u>	<u>2,396</u>	<u>2,834</u>	<u>3,098</u>	<u>2,826</u>	<u>3,538</u>
4) Net claims paid (cumulative) as of:										
End of policy year	737	880	1,114	1,017	848	744	961	1,141	978	998
One year later	1,681	1,795	2,240	1,665	1,497	1,288	1,414	2,032	1,642	
Two years later	1,927	2,135	2,697	1,826	1,559	1,417	1,534	1,921		
Three years later	2,068	2,192	2,796	1,860	1,547	1,476	1,603			
Four years later	2,106	2,357	2,775	1,865	1,554	1,505				
Five years later	2,123	2,410	2,796	1,868	1,555					
Six years later	2,141	2,413	2,803	1,878						
Seven years later	2,153	2,416	2,806							
Eight years later	2,166	2,422								
Nine years later	2,178									
5) Reestimated ceded claims and expenses	-	-	-	-	-	-	-	(102)	-	-
6) Net reestimated incurred claims and allocated expense:										
End of policy year	3,248	4,732	5,232	4,722	3,201	2,396	2,834	3,098	2,826	3,538
One year later	3,087	4,338	4,630	2,436	2,117	2,200	2,016	2,807	2,842	
Two years later	2,865	3,405	3,633	2,193	1,889	1,664	2,011	2,139		
Three years later	2,998	2,629	3,414	2,107	1,704	1,715	2,134			
Four years later	2,312	2,487	2,984	1,947	1,675	1,675				
Five years later	2,182	2,866	2,926	1,868	1,555					
Six years later	2,207	2,693	2,911	1,878						
Seven years later	2,305	2,416	2,841							
Eight years later	2,280	2,422								
Nine years later	2,332									
7) Increase (decrease) in estimated net incurred claims and allocated expense from end of policy year	(916)	(2,310)	(2,391)	(2,844)	(1,646)	(721)	(700)	(959)	16	-

(Continued)

# TEXAS COUNCIL RISK MANAGEMENT FUND

## CLAIMS DEVELOPMENT INFORMATION FISCAL AND POLICY YEAR ENDED (UNAUDITED) (In thousands)

	Liability									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1) Required contribution and investment revenues:										
Earned	\$ 2,830	\$2,430	\$2,248	\$2,177	\$2,291	\$ 1,994	\$2,208	\$ 2,679	\$ 3,018	\$ 3,507
Ceded	(666)	(391)	(402)	(398)	(362)	(348)	(358)	(372)	(407)	(450)
Net earned	<u>2,164</u>	<u>2,039</u>	<u>1,846</u>	<u>1,779</u>	<u>1,929</u>	<u>1,646</u>	<u>1,850</u>	<u>2,307</u>	<u>2,611</u>	<u>3,057</u>
2) Unallocated claims and other expenses	<u>820</u>	<u>966</u>	<u>978</u>	<u>1,006</u>	<u>981</u>	<u>835</u>	<u>895</u>	<u>892</u>	<u>1,013</u>	<u>1,005</u>
3) Estimated claims and expenses from end of policy year:										
Earned	470	1,065	1,044	938	1,069	2,020	1,775	2,661	4,382	4,055
Ceded										(73)
Net incurred	470	1,065	1,044	938	1,069	2,020	1,775	2,661	4,382	3,982
4) Net claims paid (cumulative) as of:										
End of policy year	140	201	189	226	268	392	240	490	609	1,140
One year later	274	686	477	449	518	772	1,363	1,056	1,635	
Two years later	371	931	651	649	830	1,015	1,553	1,511		
Three years later	376	1,095	837	739	975	1,024	1,300			
Four years later	376	1,170	874	748	978	1,028				
Five years later	379	1,248	879	783	979					
Six years later	382	1,248	896	794						
Seven years later	382	1,248	941							
Eight years later	382	1,248								
Nine years later	382									
5) Reestimated ceded claims and expenses	-	-	-	-	-	-	(1,226)	-	-	(73)
6) Net reestimated incurred claims and allocated expense:										
End of policy year	470	1,065	1,044	938	1,069	2,020	1,775	2,661	4,382	3,982
One year later	622	1,272	903	726	1,597	1,456	2,054	2,461	2,681	
Two years later	426	1,388	796	859	1,375	1,163	1,669	1,741		
Three years later	396	1,233	1,002	925	1,133	1,150	1,418			
Four years later	388	1,283	989	796	1,007	1,027				
Five years later	379	1,279	927	803	979					
Six years later	385	1,248	1,103	889						
Seven years later	382	1,248	941							
Eight years later	382	1,248								
Nine years later	382									
7) Increase (decrease) in estimated net incurred claims and allocated expense from end of policy year	(88)	183	(103)	(49)	(90)	(993)	(357)	(920)	(1,701)	-

(Continued)

# TEXAS COUNCIL RISK MANAGEMENT FUND

## CLAIMS DEVELOPMENT INFORMATION FISCAL AND POLICY YEAR ENDED (UNAUDITED) (In thousands)

	Property									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1) Required contribution and investment revenues:										
Earned	\$ 1,589	\$ 1,438	\$ 1,366	\$ 1,588	\$ 1,632	\$ 1,620	\$ 1,951	\$ 2,122	\$ 2,654	\$ 2,861
Ceded	(480)	(423)	(469)	(449)	(439)	(522)	(903)	(967)	(1,208)	(1,410)
Net earned	<u>1,109</u>	<u>1,015</u>	<u>897</u>	<u>1,139</u>	<u>1,193</u>	<u>1,098</u>	<u>1,048</u>	<u>1,155</u>	<u>1,446</u>	<u>1,451</u>
2) Unallocated claims and other expenses	<u>287</u>	<u>307</u>	<u>352</u>	<u>340</u>	<u>312</u>	<u>314</u>	<u>299</u>	<u>341</u>	<u>334</u>	<u>345</u>
3) Estimated claims and allocated expenses from end of policy year:										
Earned	493	1,231	9,282	1,281	1,197	801	1,055	1,151	2,378	1,476
Ceded	-	(30)	(8,168)	(328)	(212)	-	-	(333)	(368)	(564)
Net incurred	<u>493</u>	<u>1,201</u>	<u>1,114</u>	<u>953</u>	<u>985</u>	<u>801</u>	<u>1,055</u>	<u>818</u>	<u>2,010</u>	<u>912</u>
4) Net claims paid (cumulative) as of:										
End of policy year	410	486	1,674	677	857	575	620	988	1,376	640
One year later	406	744	670	624	666	729	876	937	1,342	
Two years later	403	743	679	622	666	720	795	648		
Three years later	396	743	681	624	665	720	795			
Four years later	396	743	681	622	665	720				
Five years later	395	743	681	622	662					
Six years later	395	743	681	622						
Seven years later	395	743	681							
Eight years later	395	743								
Nine years later	395									
5) Reestimated ceded claims and expenses	-	(154)	(7,792)	(235)	(230)	(15)	(76)	(549)	(308)	(514)
6) Net reestimated incurred claims and allocated expense:										
End of policy year	493	1,201	1,114	953	985	801	1,055	818	2,010	912
One year later	406	1,022	674	633	689	751	904	820	1,407	
Two years later	404	744	684	622	686	720	801	648		
Three years later	397	743	683	624	669	720	795			
Four years later	396	743	681	622	667	720				
Five years later	395	743	681	622	662					
Six years later	395	743	681	622						
Seven years later	395	743	681							
Eight years later	395	743								
Nine years later	395									
7) Increase (decrease) in estimated net incurred claims and allocated expense from end of policy year	(98)	(458)	(433)	(331)	(323)	(81)	(259)	(170)	(603)	-

(Continued)

# TEXAS COUNCIL RISK MANAGEMENT FUND

## CHANGES IN CLAIM LIABILITIES FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015 (UNAUDITED) (In thousands)

	Workers' Compensation		Liability		Property	
	2016	2015	2016	2015	2016	2015
RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES AT BEGINNING OF FISCAL YEAR	\$ 5,294	\$ 5,388	\$6,205	\$3,611	\$ 525	\$ (138)
INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES:						
Provision for insured events of the current fiscal year	4,134	3,331	4,338	4,856	967	2,060
Decrease in provision for insured events of prior fiscal years	(1,096)	(771)	(3,136)	(665)	(786)	(103)
Total incurred losses and loss adjustment expenses	3,038	2,560	1,202	4,191	181	1,957
PAYMENTS:						
Losses and loss adjustment expenses attributable to insured events of the current fiscal year	1,388	1,334	1,327	774	695	1,426
Losses and loss adjustment expenses attributable to insured events of prior fiscal years	939	1,320	1,291	823	(326)	(132)
Total payments	2,327	2,654	2,618	1,597	369	1,294
RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES AT THE END OF FISCAL YEAR	\$ 6,005	\$ 5,294	\$4,789	\$6,205	\$ 337	\$ 525