# Texas Windstorm Insurance Association

## Financial Statements and Required Supplementary Information

**For the Years Ended December 31, 2020 and 2019**

Calhoun, Thomson + Matza, LLP
Certified Public Accountants

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## Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

***Report on the Financial Statements***

We have audited the accompanying financial statements of Texas Windstorm Insurance Association (the "Association"), a component unit of the State of Texas, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

***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 the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' 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 entity'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 entity'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 Windstorm Insurance Association as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in the Summary of Significant Accounting Policies, the financial statements present only the Association and do not purport to, and do not, fairly present the financial position of the State of Texas, the changes in its financial position, or, where applicable, its cash flows for the years ended 2020 and 2019, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to these matters.

As discussed in Note 14, as of December 31, 2020, the Association had approximately $61 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. As discussed in Note 9, by state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2020, the balance in the CRTF was approximately $179.2 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

As discussed in the summary of significant accounting policies, in accordance with Senate Bill 900 ("SB 900") passed by the Texas Legislature during 2015, the Association is authorized to place $1.0 billion in public securities and assess member insurance companies $1.0 billion to fund catastrophic losses. The Association does not have taxing authority. In addition, the public securities, if issued, will not be guaranteed by any state or federal agency. Consequently, the ability of the Association to place these public securities and the sufficiency of that amount to cover future losses will depend on market conditions and the financial and operating results of the Association. Our opinion is not modified with respect to these matters.

As discussed in Note 5, ultimate loss projections for Hurricane Harvey were estimated to be $1.7 billion by the Association's appointed actuary as of December 31, 2020. If the ultimate loss projection changes in the future it could have a material adverse impact on the financial condition of the Association. Our opinion is not modified with respect to these matters.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 6 to 15, schedules of changes in net pension liability and related ratios, on page 46, and schedules of employer contributions on page 47 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.

Cahn, Thomas & Matza, LLP

April 26, 2021

Our discussion and analysis of the financial performance of Texas Windstorm Insurance Association (the "Association") provides an overview of the Association's financial activities for the years ended December 31, 2020 and 2019. The information should be read in conjunction with the Association's financial statements.

**Nature of Business**

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Association is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

(Amounts in Thousands)

### Financial Summary

A summary of the statements of net position for the Association is presented below:

| *December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **481,676** | $ | 514,611 |
| Assessment receivable | | **2,199** | | 92,199 |
| Capital assets | | **5,025** | | 1,161 |
| Other assets | | **3,906** | | 2,819 |
| Total assets | | **492,806** | | 610,790 |
| Deferred outflows of resources | | **3,881** | | 3,639 |
| | **$** | **496,687** | $ | 614,429 |
| | | | | |
| Other liabilities | **$** | **401,046** | $ | 453,298 |
| Borrowed money – bonds and interest payable | | **236,572** | | 331,742 |
| Total liabilities | | **637,618** | | 785,040 |
| Deferred inflows of resources | | **2,351** | | 1,840 |
| Total liabilities and deferred inflows of resources | | **639,969** | | 786,880 |
| Net position: | | | | |
| Investment in capital assets | | **5,025** | | 1,161 |
| Unrestricted | | **(148,307)** | | (173,612) |
| Total net position | | **(143,282)** | | (172,451) |
| | **$** | **496,687** | $ | 614,429 |

(Amounts in Thousands)

A summary of the statements of revenues, expenses, and changes in net position for the Association is presented below:

| *Years ended December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| **Operating revenues:** | | | | |
| Net premiums earned | **$** | **261,574** | $ | 287,477 |
| **Operating expenses:** | | | | |
| Losses and loss adjustment expenses | | **118,470** | | 113,398 |
| Underwriting expenses | | **90,242** | | 94,068 |
| Total expenses | | **208,712** | | 207,466 |
| Operating income | | **52,862** | | 80,011 |
| Nonoperating (expense) revenue | | **(23,693)** | | 15,284 |
| Increase in net position before federal income tax expense | | **29,169** | | 95,295 |
| Federal income tax expense | | **-** | | - |
| Change in net position | | **29,169** | | 95,295 |
| Net position at beginning of year | | **(172,451)** | | (267,746) |
| Net position at end of year | **$** | **(143,282)** | $ | (172,451) |

## ANALYSIS OF FINANCIAL POSITION

### Assets

The Association maintains cash and cash equivalents at banks consisting of cash, certificates of deposit, reverse repurchase agreements, and money market mutual funds. Money market mutual funds are recorded at net asset value, which approximates fair value. Reverse repurchase agreements are recorded at fair value. As of December 31, 2020, cash and cash equivalents decreased $32,935 from December 31, 2019. The decrease was partially attributable to repayments of bond principal and is offset by assessments collected from insurance carriers resulting from Hurricane Harvey payments. As of December 31, 2019, cash and cash equivalents decreased $141,516 from December 31, 2018.The decrease was primarily attributable to the contribution to the CRTF of $110,590 which was accrued as of December 31, 2018 and a decrease in written premium year over year.

The assessment receivable was $2,199 and $92,199 as of December 31, 2020 and 2019, respectively. The decrease was related to the $90,000 assessment receipts during 2020. The assessment receivable was $92,199 and $2,199 as of December 31, 2019 and 2018, respectively. The increase was related to the $90,000 member assessment approved by the Commissioner of Insurance on January 10, 2020 (see Note 9).

### Liabilities

The statutory fund payable account was $0 and $52,641 as of December 31, 2020 and 2019, respectively. These funds are payable to the CRTF, and under control of the Texas Department of Insurance ("TDI"). The decrease is related to no accrued CRTF payable as there was no net gain from operations for the year 2020. The statutory fund payable account was $52,641 and $110,590 as of December 31, 2019 and 2018, respectively. These funds are payable to the CRTF, and under control of the TDI. The decrease is related to lower premium volume and the designation of $45,000 for an anticipated partial bond redemption in May 2020 (see Note 8).

Loss and loss adjustment expense ("LAE") reserves are based on past loss experience and consideration of current claim trends as well as prevailing social, economic and legal conditions. Loss and LAE reserves are not discounted. A review of the reserves is conducted quarterly by management to evaluate the accuracy of the determination of the loss and LAE reserves and to observe adherence to corporate policy.

The reserve for losses and LAE is based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims.

The December 31, 2020 direct loss and LAE reserves decreased $4,797 from 2019. This decrease in reserves was the result of prior year payments of reserves offset by current year storm activity. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2020 and 2019 make a reasonable provision for the Association's claim liabilities.

The December 31, 2019 direct loss and LAE reserves decreased $31,660 from 2018. This decrease in reserves was the result of favorable storm activity during 2019 and continued settlement of prior year claims from 2017 storm activity. The ultimate estimate for losses and LAE related to Hurricane Harvey was increased by $90,000 during the second quarter of 2019 due to a greater number and severity of supplemental payments on reopened claims. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2019 and 2018 make a reasonable provision for the Association's claim liabilities.

**Borrowed money – bonds and interest payable**

Bonds consist of $500,000 in Texas Public Finance Authority Class 1 Revenue Bonds (Texas Windstorm Insurance Association Program), Taxable Series 2014 (the "Bonds"), as permitted by Texas Statute. The Bonds fully mature by 2024. The principal balance of Bonds outstanding as of December 31, 2020 and 2019 was $227,200 and $318,600, respectively. The decrease is attributable to scheduled principal payments during the year and early partial redemption of $45,000 paid during 2020. Total interest payable as of December 31, 2020 and 2019 was $9,372 and $13,142, respectively. The principal balance of Bonds outstanding as of December 31, 2019 and 2018 was $318,600 and $368,500, respectively. The decrease is attributable to scheduled principal payments during the year. Total interest payable as of December 31, 2019 and 2018 was $13,142 and $15,201, respectively.

**Capital and Surplus**

The net statutory gain from operations of the Association must be transferred to the CRTF following the close of each business year. Under the statutory agreement with the TDI, monies in the CRTF are to be used for purposes directly related to funding the payment of insured losses from windstorm and hail catastrophe losses in excess of premium and other revenue of the Association in a catastrophe year.

During 2020 and 2019, the Association paid $52,641 and $110,590 to the CRTF representing the 2019 and 2018 net gain from operations. The Association accrued $0 and $52,641 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2020 and 2019, respectively. During 2019 and 2018, the Association paid $110,590 and $0 to the CRTF representing the 2018 and 2017 net gain from operations. The Association accrued $52,641 and $110,590 of statutory fund costs in the statements of revenues, expenses and changes in net position for the years ended December 31, 2019 and 2018, respectively.

**Reinsurance**

During 2020 and 2019, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement ("aggregate excess of loss").

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

The Association has entered into quota share reinsurance agreements in relation to the Assumption Reinsurance Depopulation Program ("Assumption Program") (see Note 10).

**(Amounts in Thousands)**

The effect on premiums written and earned for the years ended December 31, 2020 and 2019 is as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Written** | **Earned** | Written | Earned |
| Direct premium | **$ 369,600** | **369,179** | $ 372,017 | $ 381,571 |
| Excess of loss ceded premium | **(106,865)** | **(106,865)** | (92,403) | (92,403) |
| Depopulation ceded premium | **(740)** | **(740)** | (1,691) | (1,691) |
| Net | **$ 261,995** | **261,574** | $ 277,923 | $ 287,477 |

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

Unearned premiums are reported as follows:

| *December 31,* | **2020** | 2019 |
|---|---|---|
| Gross unearned premiums | **$ 185,917** | $ 185,495 |
| Ceded unearned premiums | **-** | - |
| | **$ 185,917** | $ 185,495 |

**Commitments and Contingencies**

The Association leases office space under a non-cancelable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancelable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2020.

The minimum aggregate rental commitments are as follows:

| *Years Ending December 31,* | Amount |
|---|---|
| 2021 | $ 1,062 |
| 2022 | 1,088 |
| 2023 | - |
| 2024 | - |
| 2025 and thereafter | - |
| | $ 2,150 |

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,422 for the years ended December 31, 2020 and 2019, respectively.

**Governance**

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

**Depopulation**

Depopulation measures were introduced in the 84$^{th}$ Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured in 2020 and as a result, there was no round five implemented on December 1, 2020. Round 5 commenced in early 2021 and the novation to the carriers will occur on March 1, 2022.

Effective December 1, 2019, pursuant to measures introduced in the 84$^{th}$ Texas Legislature in 2015, the Association implemented year four of the Assumption Program. A total of 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies transferred to participating companies on June 1, 2020. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 were settled at the end of the treaty period, June 1, 2020.

As of December 31, 2020 and 2019, funds held by company under reinsurance treaties was $0 and $179, respectively, and is included in the statements of net position.

During 2020 and 2019, the Association recognized ceded written premiums of $740 and $1,691, respectively, as a result of the Assumption Program.

**Service Contract with Texas Fair Plan Association**

During 2002, the Association entered into a service contract with the Texas Fair Plan Association ("TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2020 and 2019, the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days. During 2019 and 2018, the Association paid expenses for TFPA under its management contract and was reimbursed $14,133 and $13,787, respectively. As of December 31, 2019 and 2018, the Association incurred or paid expenses for which it has not been reimbursed of $1,076 and $1,029, respectively, on behalf of TFPA. These amounts are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

**RESULTS OF OPERATIONS**

**Revenues**

Direct written premium was $369,600 and $372,017 for the years ended December 31, 2020 and 2019 respectively. The 1% decrease from 2019 to 2020 was the result of lower policy count and continued depopulation efforts. Direct written premium was $372,017 and $395,552 for the years ended December 31, 2019 and 2018 respectively. The 6% decrease from 2018 to 2019 was the result of a decrease in policy count and depopulation efforts during 2019 and 2018.

Net earned premium was $261,574 and $287,477 for the years ended December 31, 2020 and 2019, respectively. The 9% decrease from 2019 to 2020 was a result of continued reductions in written premium from the prior two years. Net earned premium was $287,477 and $301,515 for the years ended December 31, 2019 and 2018, respectively. The 5% decrease from 2018 to 2019 was a result of a decrease in policy count and depopulation efforts during 2019 and 2018.

Net investment (expense) income was $1,694 and $6,226 for the years ended December 31, 2020 and 2019, respectively. The decrease in net investment income reflects the sharp drop in interest rate return during 2020. Net investment income was $6,226 and $5,014 for the years ended December 31, 2019 and 2018, respectively. In 2019, the increase in net investment income reflects an improved rate environment.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2020 and 2019, the negative position of the Association is $143,282 and $172,451, respectively. As of December 31, 2019 and 2018, the net negative position of the Association is $172,451 and $267,746, respectively.

**Net Loss and Loss Adjustment Expenses**

Net loss and LAE was $118,470 and $113,398 for the years ended December 31, 2020 and 2019, respectively. The increase in net loss and LAE is primarily due to the Association being impacted by Hurricanes Hanna, Laura and Delta which had an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020 offset by no development from Hurricane Harvey in 2020 that was experienced in 2019. Net loss and LAE was $113,398 and $175,998 for the years ended December 31, 2019 and 2018, respectively. The decrease in net loss and LAE is primarily due to a relatively quiet storm season in 2019 and lower levels of unfavorable development associated with Hurricane Harvey in 2019 compared to 2018. Unfavorable development of losses and LAE related to Hurricane Harvey resulted in the Association recording an increase in the ultimate loss estimate for Hurricane Harvey of $90,000 and $164,000 in 2019 and 2018, respectively.

**Underwriting Expenses**

Underwriting expenses were $90,242 and $94,068 for the years ended December 31, 2020 and 2019, respectively. Underwriting expenses decreased in 2020 approximately 4% while direct written premium decreased approximately 1%. Reductions in commission and premium were offset by costs associated with system implementations. Underwriting expenses were $94,068 and $96,982 for the years ended December 31, 2019 and 2018, respectively. Underwriting expenses decreased in 2019 approximately 3% while direct written premium decreased approximately 6%. Reductions in commission and premium were offset by costs associated with system implementations.

## Statements of Net Position
**(Amounts in Thousands)**

| *December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| **Assets and deferred outflows of resources** | | | | |
| **Assets** | | | | |
| Cash and cash equivalents | **$** | **481,676** | $ | 514,611 |
| Assessment receivable | | **2,199** | | 92,199 |
| Capital assets, net | | **5,025** | | 1,161 |
| Other assets | | **3,906** | | 2,819 |
| Total assets | | **492,806** | | 610,790 |
| **Deferred outflows of resources related to pensions** | | | | |
| Differences between expected and actual experience | | **701** | | 468 |
| Changes in assumptions | | **3,180** | | 3,171 |
| Total deferred outflows of resources | | **3,881** | | 3,639 |
| | **$** | **496,687** | $ | 614,429 |

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Net Position
**(Amounts in Thousands)**
**(Continued)**

| *December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| **Liabilities, deferred inflows of resources and net position** | | | | |
| **Liabilities** | | | | |
| Losses and loss adjustment expense reserves | **$** | **164,401** | $ | 169,198 |
| Unearned premiums | | **185,917** | | 185,495 |
| Ceded reinsurance premiums payable, net of ceding commissions | | **25,908** | | 22,381 |
| Funds held by company under reinsurance treaties | | **-** | | 179 |
| Borrowed money – bonds and interest payable | | **236,572** | | 331,742 |
| Statutory fund payable | | **-** | | 52,641 |
| Other liabilities | | **24,820** | | 23,404 |
| Total liabilities | | **637,618** | | 785,040 |
| **Deferred inflows of resources related to pensions** | | | | |
| Net difference between projected and actual earnings on plan investments | | **2,183** | | 1,588 |
| Differences between expected and actual experience | | **113** | | 183 |
| Changes in assumptions | | **55** | | 69 |
| Total deferred inflows of resources | | **2,351** | | 1,840 |
| Total liabilities and deferred inflows of resources | | **639,969** | | 786,880 |
| **Net position** | | | | |
| Investment in capital assets | | **5,025** | | 1,161 |
| Unrestricted | | **(148,307)** | | (173,612) |
| Total net position | | **(143,282)** | | (172,451) |
| | **$** | **496,687** | $ | 614,429 |

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Revenues, Expenses and Changes in Net Position
**(Amounts in Thousands)**

| *Years ended December 31,* | **2020** | 2019 |
|---|---|---|
| **Operating revenues** | | |
| Premiums earned | **$ 369,179** | $ 381,571 |
| Premiums ceded | **(107,605)** | (94,094) |
| Total operating revenues | **261,574** | 287,477 |
| **Operating expenses** | | |
| Losses and loss adjustment expenses | **118,470** | 113,398 |
| Underwriting expenses | **90,242** | 94,068 |
| Total operating expenses | **208,712** | 207,466 |
| Operating income | **52,862** | 80,011 |
| **Nonoperating revenues and (expenses)** | | |
| Net investment (loss) income earned | **(1,694)** | 6,226 |
| Interest expense | **(21,999)** | (28,343) |
| Assessment income | **-** | 90,000 |
| Statutory fund costs | **-** | (52,641) |
| Other income | **-** | 42 |
| Total nonoperating (expenses) revenues | **(23,693)** | 15,284 |
| Increase in net position before federal income tax expense | **29,169** | 95,295 |
| Federal income tax expense | **-** | - |
| Change in net position | **29,169** | 95,295 |
| **Net position:** | | |
| Net position, beginning of year | **(172,451)** | (267,746) |
| Change in net position | **29,169** | 95,295 |
| Net position, end of year | **$ (143,282)** | $ (172,451) |

*See accompanying summary of significant accounting policies and notes to financial statements.*

# Texas Windstorm Insurance Association

## Statements of Cash Flows

**(Amounts in Thousands)**

| *Years ended December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Premiums collected, net of reinsurance | **$** | **264,820** | $ | 280,281 |
| Losses and loss adjustment expense paid | | **(123,321)** | | (145,048) |
| Underwriting expenses paid | | **(88,413)** | | (92,383) |
| Receivable from affiliate | | **(57)** | | (47) |
| Net cash provided by operating activities | | **53,029** | | 42,803 |
| **Cash flows from noncapital financing activities:** | | | | |
| Bond principal paid | | **(91,400)** | | (49,900) |
| Financing costs paid | | **(3,058)** | | (2,296) |
| Bond interest paid | | **(25,769)** | | (30,401) |
| Statutory fund paid | | **(52,641)** | | (110,590) |
| Assessment income received | | **90,000** | | - |
| Other | | **-** | | 42 |
| Net cash used in noncapital financing activities | | **(82,868)** | | (193,145) |
| **Cash flows from capital and related financing activities:** | | | | |
| Capital assets | | **(4,577)** | | (70) |
| Net cash used in capital and related financing activities | | **(4,577)** | | (70) |
| **Cash flows from investing activities:** | | | | |
| Net investment income | | **1,481** | | 8,896 |
| Net cash provided by investing activities | | **1,481** | | 8,896 |
| Net decrease in cash and cash equivalents | | **(32,935)** | | (141,516) |
| Cash and cash equivalents, beginning of year | | **514,611** | | 656,127 |
| Cash and cash equivalents, end of year | **$** | **481,676** | $ | 514,611 |

*See accompanying summary of significant accounting policies and notes to financial statements.*

## Statements of Cash Flows
**(Amounts in Thousands)**
**(Continued)**

| *Years ended December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating income | **$** | **52,862** | $ | 80,011 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | | **713** | | 1,743 |
| Changes in assets and liabilities: | | | | |
| Losses and loss adjustment expense reserves | | **(4,797)** | | (31,660) |
| Unearned premiums | | **422** | | (9,555) |
| Ceded reinsurance premiums payable | | **3,527** | | 2,209 |
| Other liabilities | | **1,844** | | 1,193 |
| Other assets | | **(1,542)** | | (1,138) |
| Net cash provided by operating activities | **$** | **53,029** | $ | 42,803 |

*See accompanying summary of significant accounting policies and notes to financial statements.*

**Nature of Business**

Based upon its statutory purpose under Chapter 2210, Tex. Ins. Code (the "Act"), the Texas Windstorm Insurance Association (the "Association") is an entity created by the Texas legislature with its primary statutory purpose being the provision of an adequate market for windstorm and hail insurance in the seacoast territory of Texas ("seacoast territory"). Chapter 2210 provides a method by which adequate windstorm and hail insurance may be obtained in certain designated portions of the seacoast territory.

The Association is intended to serve as a residual insurer of last resort for windstorm and hail insurance in the seacoast territory. The Association shall function in such a manner as to not be a direct competitor in the private market and to provide windstorm and hail insurance coverage to those who are unable to obtain that coverage in the private market.

**Organization**

The Association was established in 1971 by the Texas Legislature to provide wind and hail coverage to applicants unable to obtain insurance in the Texas seacoast territory from the private market. The Legislature's action was a response to market constrictions along the Texas coast after several hurricanes. The Association is governed by Chapter 2210 of the Texas Insurance Code (Chapter 2210); however, it is not a state agency and does not receive funds from the general revenue.

The Association is a residual insurer of last resort and as such is not a direct competitor in the private market. The Association's primary purpose is to provide an adequate market for windstorm and hail insurance in certain designated portions of the seacoast territory of Texas. The seacoast territory includes 14 first tier and 14 second tier coastal counties. The designated catastrophe area is that portion of the seacoast territory where the Commissioner of Insurance has found that windstorm and hail insurance is not reasonably available. It currently includes the entire first tier counties and a portion of Harris County (second tier). The specific designated catastrophe areas are: Aransas, Brazoria, Calhoun, Cameron, Chambers, Galveston, Jefferson, Kenedy, Kleberg, Matagorda, Nueces, Refugio, San Patricio and Willacy, inside the city limits and east of Highway 146, and the following portions of Harris County: La Porte, Morgan's Point, Pasadena, Seabrook, and Shore Acres.

The Association operates as an insurance company by issuing policies, collecting premiums, and paying losses. The Association is required by law to use the net gain from operations each year to make payments to the CRTF, procure reinsurance, or use alternative risk mechanisms. The CRTF is an account maintained by the Texas Comptroller dedicated to funding the payment of Association catastrophe losses.

Association policies provide residential and commercial property coverage for losses resulting from windstorm or hail. No other perils are covered by Association policies. Applications for coverage may be submitted to the Association through a property and casualty agent properly licensed through the Texas Department of Insurance ("TDI"). Applications will be accompanied by a full annual premium or a deposit followed by installment payments. In order to be eligible for an Association policy, applicants and properties must meet certain criteria defined by the Texas Legislature:

- Applicants must have been denied coverage by at least one insurer in the private market.
- Properties must be located in the designated catastrophe area.
- Properties must be certified by the TDI as having been built to applicable building codes, with limited exceptions.
- Properties located in specified flood zones that were constructed, altered, remodeled, or enlarged after September 1, 2009 and that can obtain flood insurance through the National Flood Insurance Program must provide proof of flood insurance coverage.
- Properties must be in an insurable condition as specified by the Association in the Plan of Operation.

Texas Insurance Code Sections 2210.251 and 2210.258 - 2210.259 and the Association's Plan of Operation (28 TAC 5.4001 et seq.) outline the building code and inspection requirements for eligibility in the Association and provide for limited exceptions. In accordance with these sections, the Association requires a WPI-8 certificate of compliance on all structures constructed, altered, remodeled, enlarged, repaired, or to which additions have been made on or after January 1, 1988. To obtain a WPI-8, the TDI inspectors or the TDI-approved licensed professional engineers must inspect the property and certify that it is fully compliant with the windstorm building code.

Properties must be in an insurable condition to be eligible for Association coverage, i.e. in good repair with no unrepaired damage or hazardous conditions. The Association regularly inspects properties as part of its underwriting process to verify insurability. Properties may be inspected on-site by a vendor or remotely via high-quality aerial imagery. Inspections are used to determine the accuracy of rating information, discover any unrepaired damage, and identify any other conditions that affect the insurability of the property.

Approximately \$4,200,000 in funding was secured for the 2020 hurricane season. SB 900, passed by the 84$^{th}$ Texas Legislature, took effect during 2015, and changed the Association's funding structure. \$4,200,000 is sufficient to fund claims associated with 99% of all modeled hurricane seasons.

The Association's funding structure for the 2020 hurricane season is, in order:

- $100,000 in CRTF funds
- $500,000 in Class 1 public securities
- $500,000 in Class 1 member assessments
- $250,000 in Class 2 public securities
- $250,000 in Class 2 member assessments
- $250,000 in Class 3 public securities
- $250,000 in Class 3 member assessments
- $2,100,000 in total reinsurance, including both traditional reinsurance and catastrophe bonds

Class 1, 2, and 3 public securities will be repaid by Association premiums and surcharges on Association policies. Class 2 and 3 public securities, after a finding by the Commissioner of Insurance, may also be repaid by surcharges on coastal policyholders, if necessary.

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. This allows private insurance companies interested in writing on the Texas coast to assume portions of the Association's book of business as of a point in time. Policyholders have the chance to opt-out of the assumption process.

The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. The Assumption Program requires participating insurers to work through agents to identify the policies that will receive assumption offers. A total of 1,007 policies were novated on May 31, 2020. The Assumption Program was restructured in 2020 and will resume in 2021.

**Basis of Accounting**
While the Association is an instrumentality of the State of Texas, the State of Texas General Fund is not liable for the Associations claims, losses, or other liabilities. However, the Association meets the definition of a governmental organization, as defined by accounting principles generally accepted in the United States of America.

The Association is accounted for as an enterprise fund and is financed and operated in a manner similar to that of a private business enterprise. The Association uses the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method, revenues are recorded when earned and expenses are recorded when incurred.

In May of 2020, the Governmental Accounting Standards Board ("GASB") issued Statement No. 95, Postponement of Effective Dates of Certain Authoritative Guidance. This statement postpones the effective date of GASB 87 to fiscal years beginning after June 15, 2021.

In January of 2020, GASB issued Statement No. 92, Omnibus 2020. This statement addresses a variety of topics and includes specific provisions about the effective date of Statement No. 87, Leases, and Implementation Guide No. 2019-3. The requirements related to the effective date of Statement No. 87 and Implementation Guide 2019-3 are effective for periods beginning after December 15, 2019. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

In June of 2017, the GASB issued Statement No. 87, Leases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2019. Early application is encouraged. The Association is currently evaluating the impact this standard will have on the financial statements when adopted.

**Use of Significant Estimates**
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The reserves for unpaid losses and loss adjustment expense are significant estimates made by management.

**Cash Equivalents**
For the purposes of the statements of cash flows, the Association considers all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents, which include money market mutual funds, are recorded at Net Asset Value ("NAV"), which approximates fair value.

**Reverse Repurchase Agreements**
Reverse repurchase agreements are recorded in cash equivalents as the repurchase date is less than 90 days. Reverse repurchase agreements represent the purchase of a security with an agreement to resell.

**Capital Assets**
The Association has invested funds in electronic data processing equipment and software, in addition to furniture and equipment and is stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years.

**Income Taxes**
In 2010, the Association applied for and received a Private Letter Ruling ("PLR") from the Internal Revenue Service ("IRS"). The PLR requested acknowledgement that the Association's income is derived from an essential governmental function which accrues to a state or political subdivision and is therefore excluded from gross income under Section 115(1) of the Internal Revenue Code ("IRC"). On August 17, 2010, the IRS ruled that the Association performs an essential government function and that income from that function is excluded from gross income under IRC Section 115(1).

The Association had been filing form 1120-PC tax returns with the IRS as a property and casualty insurance company. Under the IRC the statute of limitations to be assessed additional taxes or to file amended tax returns is 3 years from the later of the due date of the return (including extensions) or the filing date of the return. There are existing net operating loss carryforwards in the open tax years that are not anticipated to be realized. As of December 31, 2020, the statute of limitations remains open for the 2017 to 2020 tax years. No further federal income tax impact is expected in the future.

**Operating Revenues and Expenses**
Operating revenues are those revenues that are generated directly from the primary activity of the Association. For the Association, these revenues are primarily the premiums charged to policyholders. Operating expenses include incurred losses and necessary costs incurred to provide and administer claims.

All revenue not meeting the definition of operating revenue and expenses are reported as nonoperating revenues and expenses. Significant or major components of nonoperating revenues and expenses include interest expense, assessment income, statutory fund costs, and statutory fund income and are included in the statements of revenues, expenses and changes in net position.

**Premiums**
All policies issued by the Association have a maximum term of one year from date of issuance. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. The liability for unearned premiums as of the end of the Association's year is computed on a pro-rata basis over the term of the policies. All premium rates charged by the Association must be approved by the TDI Commissioner.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statements of net position.

Those premiums received for policies which are not effective and not issued as of year-end are included in other liabilities within the Association's statements of net position.

**Policy Acquisition Costs**
Acquisition costs consisting of commissions and premium taxes, vary with and are primarily related to the issuance of new and renewal insurance policies. Acquisition costs are expensed as incurred.

**Losses and Loss Adjustment Expenses**
Loss and LAE reserves are based upon claim estimates for (1) losses for claims reported prior to the close of the accounting period, (2) losses incurred but unreported prior to the close of the accounting period, and (3) expenses for investigating and adjusting claims. Such liabilities are necessarily based on assumptions and estimates and while management believes the amounts are adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

**Reinsurance**
In the normal course of business, the Association seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Depopulation ceded premiums are recognized as the ceded policies' premiums are earned.

**Long-Lived Assets – Impairment and Disposal**
The Association reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

**(Amounts in Thousands)**

**1. Cash and Cash Equivalents**

Cash and cash equivalents are as follows:

| *December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Cash | **$** | **196,419** | $ | 209,840 |
| Cash equivalents: | | | | |
| Reverse repurchase agreements | | **83,406** | | 82,016 |
| Money market mutual funds | | **201,851** | | 222,755 |
| Cash equivalents | | **285,257** | | 304,771 |
| | **$** | **481,676** | $ | 514,611 |

*Money Market Mutual Funds*

The Association invests in money market mutual funds which are included in cash equivalents. The fair value of money market mutual funds was approximately $201,851 and $222,755 as of December 31, 2020 and 2019, respectively.

*Reverse Repurchase Agreements*

The Association invests in overnight reverse repurchase agreements with the Texas Treasury Safekeeping Trust Company ("TTSTC"). These invested funds were received from the issuance of bonds during 2014 and include debt service payments. The funds are held at the TTSTC to be used for debt service and for use when a catastrophic event occurs (see Note 8). The TTSTC's minimum collateral required for overnight reverse repurchase investments is at least 100% for Treasuries; 101% for Agencies and U.S. Instrumentalities and 102% for mortgage-backed securities. The fair value of reverse repurchase agreements was approximately $83,406 and $82,016 as of December 31, 2020 and 2019, respectively, and is included in cash and cash equivalents in the statements of net position.

**Reverse Repurchase Agreement**

| *Fair Value as of December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Open | **$** | **-** | $ | - |
| 30 days or less | | **83,406** | | 82,016 |
| 31 to 60 days | | **-** | | - |
| 61 to 90 days | | **-** | | - |
| Greater than 90 days | | **-** | | - |
| Securities received | | **-** | | - |
| | **$** | **83,406** | $ | 82,016 |

(Amounts in Thousands)

**2. Capital assets**

Capital assets consist of the following:

| *December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Furniture and fixtures | **$** | 540 | $ | 540 |
| Electronic data processing equipment and software | | 15,043 | | 10,466 |
| Leasehold improvements | | 1,858 | | 1,858 |
| | | 17,441 | | 12,864 |
| Less: accumulated depreciation | | (12,416) | | (11,703) |
| | **$** | 5,025 | $ | 1,161 |

Depreciation and amortization expense was $713 and $1,743 for the years ended December 31, 2020 and 2019, respectively.

**3. Reinsurance**

During 2020 and 2019, the Association entered into reinsurance agreements. These agreements reduce the amount of losses that can arise from claims under a general reinsurance contract known as a catastrophe aggregate excess of loss reinsurance agreement (“aggregate excess of loss”).

***Aggregate Excess of Loss***

Effective June 1, 2020, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Effective June 1, 2019, the reinsurance program is to indemnify the Association in respect of the liability that may accrue to the Association as a result of loss or losses under policies classified by the Association as property business, including, but not limited to residential, commercial and inland marine business, in force at the inception of this contract, or written or renewed during the term of this contract by or on behalf of the Association. The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract of 100% of the ultimate net loss over and above an initial ultimate net loss of $2,100,000, subject to a limit of liability to the reinsurer of $2,100,000.

Ceded reinsurance is treated as the risk and liability of the assuming companies; however, the reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association. The Association evaluates the financial conditions of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

(Amounts in Thousands)

The Association has entered into quota share reinsurance agreements in relation to the Assumption Program (see Note 10).

The effect of reinsurance on premiums written and earned for the years ended December 31, 2020 and 2019 is as follows:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Written** | **Earned** | Written | Earned |
| Direct premium | **$ 369,600** | **369,179** | $ 372,017 | $ 381,571 |
| Excess of loss ceded premium | **(106,865)** | **(106,865)** | (92,403) | (92,403) |
| Depopulation ceded premium | **(740)** | **(740)** | (1,691) | (1,691) |
| Net | **$ 261,995** | **261,574** | $ 277,923 | $ 287,477 |

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 10).

As of December 31, 2020 and 2019, the Association had reinsurance recoverables of $66 and $7, respectively, of paid losses and LAE as a result of the Assumption Program and are included in other assets in the statements of net position.

## 4. Unearned Premiums

Unearned premiums are reported as follows:

| *December 31,* | 2020 | 2019 |
|---|---|---|
| Gross unearned premiums | **$ 185,917** | $ 185,495 |
| Ceded unearned premiums | **-** | - |
| | **$ 185,917** | $ 185,495 |

(Amounts in Thousands)

5. **Losses and Loss Adjustment Expense Reserves**

The following table provides a reconciliation of the beginning and ending reserve balances, net of reinsurance recoverables, for losses and loss adjustment expenses:

| *Years ended December 31,* | | **2020** | | 2019 |
|---|---|---|---|---|
| Beginning balance | **$** | **169,198** | $ | 200,858 |
| Reinsurance recoverable | | **68** | | 78 |
| Beginning net balance | | **169,130** | | 200,780 |
| Incurred related to: | | | | |
| Current loss year | | **118,363** | | 26,454 |
| Prior loss years | | **107** | | 86,944 |
| Losses and loss adjustment expense incurred | | **118,470** | | 113,398 |
| Paid related to: | | | | |
| Current loss year | | **66,784** | | 19,918 |
| Prior loss years | | **56,501** | | 125,130 |
| Paid losses and loss adjustment expense | | **123,285** | | 145,048 |
| Ending net balance | | **164,315** | | 169,130 |
| Reinsurance recoverable | | **86** | | 68 |
| Ending balance | **$** | **164,401** | $ | 169,198 |

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statements of revenues, expenses and changes in net position. Increases in those estimates increase current year expense and are referred to as unfavorable development or prior year reserve shortages. Decreases in those estimates decrease current year expense and are referred to as favorable development or prior year reserve redundancies. Current year losses and LAE reflected on the statements of revenues, expenses and changes in net position of $118,470 had relatively minimal unfavorable prior year development. During 2020, Association policyholders were impacted by Hurricanes Hanna, Laura and Delta which have an estimated combined gross ultimate loss and LAE of $92.1 million as of December 31, 2020. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000 as of December 31, 2020. The ultimate losses and LAE attributable to Hurricane Harvey was increased by $90,000 in 2019 due to the increase in severity of claims development. Increases or decreases of this nature occur as the result of claim settlements and receipt and evaluation of additional information regarding unpaid claims. Recent development trends are also taken into account in evaluating the overall adequacy of reserves. Due to the inherently uncertain process involving loss and LAE reserve estimates, the final resolution of the ultimate liability may be different from that anticipated at the reporting date. The appointed actuary for the Association has opined that the loss and LAE reserves as of December 31, 2020 and 2019 make a reasonable provision for the Association's claim liabilities.

**6. Governance**

Pursuant to SB 900 signed into law during 2015, the Board of Directors composition changed and now consists of nine members: three industry representatives from companies actively writing and renewing windstorm and hail insurance in the first tier coastal counties, three public members residing in the first tier coastal counties, and three non-coastal representatives who live more than 100 miles from the Texas coast. One of the public members must also be a property and casualty agent who is licensed under this code and is not a captive agent.

**7. Service Contract with Texas FAIR Plan Association**

During 2002, the Association entered into a service contract with the Texas Fair Plan Association (“TFPA") in which the Association is to be fully reimbursed for all expenditures, professional fees, consulting services, allocated employee time, lost investment income and other costs directly associated with the services provided by the Association on behalf of TFPA. During 2020 and 2019 the Association paid expenses for TFPA under its management contract and was reimbursed $14,314 and $14,133, respectively. As of December 31, 2020 and 2019, the Association incurred or paid expenses for which it has not been reimbursed of $1,132 and $1,076, respectively, on behalf of TFPA, and are included in other assets in the statements of net position. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

**8. Borrowed Money – Bonds Payable**

The Texas Public Finance Authority (the “Authority” or the “Issuer”) has issued Bonds on behalf of the Association for the purposes of financing future costs in the amount of $500,000. The Bonds are issued pursuant to a master resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the “Master Resolution”), and a first supplemental resolution adopted by the Board of Directors of the Authority on September 24, 2014 (the “First Supplemental Resolution”, and together with the Master Resolution, the “Resolutions”). The Bonds constitute the initial series of Class 1 Public Securities of the Authority secured and payable from Class 1 Pledged Revenues irrevocably pledged under the Resolutions. The Association has pledged the Class 1 Pledged Revenues to the Authority pursuant to a Financing and Pledge Agreement dated as of September 1, 2014 between the Authority and the Association.

The Bonds were issued on September 30, 2014 for $500,000 of which $227,200 and $318,600 principal balance was outstanding as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position. The bonds mature July 1, 2024 and can be redeemed in whole or in part by the Issuer beginning July 1, 2019. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. Interest is payable semi-annually on January 1 and July 1 with the first payment made on January 1, 2015. The Bonds are secured by the Association’s net premium and other revenue which is used to fund the debt service and related accounts held by the TTSTC.

There are various general and special covenants associated with the Bonds. The primary covenants, which exist as long as there are outstanding Class 1 Public Securities and administrative expenses, require that; (1) the Association will take actions that produce projected net coverage revenues in an amount not less than 125% of the obligations and administrative expenses due in the succeeding four quarters and; (2) that actual net coverage revenues for the preceding four quarters will be in an amount not less than 110% of the actual obligations and administrative expenses for the same period. Another covenant, which exists as long as the Bonds are outstanding, states that the Association will maintain the operating bank account subject to a deposit account control agreement to maintain a perfected security interest in the net premiums and other revenue held for the benefit of the bondholders. As of December 31, 2020, the Association estimates projected net coverage revenues will be 140% of the obligations and administrative expenses for the next four quarters ending December 31, 2021 which exceeds the required 125% threshold.

On May 11, 2020, the Association completed a voluntary early redemption of $45 million principal of the Bonds and paid $1.3 million interest associated with the redeemed securities. While the redemption was optional, the $46.3 million paid to redeem these securities is required to be included as a debt obligation impacting the preceding four quarters "look back" calculation. The coverage ratio for the four quarters ended December 31, 2020 is 44% or 66 percentage points below the specified ratio of 110% due to the inclusion of the $46.3 million redemption amount and losses from Hurricanes Hanna, Laura and Delta which struck the Association's coverage areas along the Texas coast during the 2020 hurricane season. Pursuant to the Bond documents, if either the actual net coverage revenue test or the projected net coverage revenue test falls below the applicable threshold (110% and 125%, respectively) the Association is required to disclose to the Authority the action or actions (including but not limited to rate changes, reinsurance costs adjustments, and other fiscal steps) necessary to meet the requirements in the future. Future periods are forecasted to produce sufficient projected net coverage revenues as the early redemption and non-catastrophic losses from the 2020 hurricane season are excluded from the coverage calculation due to the passage of time. As a result, neither a rate adjustment nor an adjustment to reinsurance costs are deemed necessary to produce future projected net coverage revenues equal to or in excess of 125% of the obligations and administrative expenses.

The Bonds are subject to optional make-whole redemption, in whole or in part, at the option of the Authority, at the request of the Association prior to July 1, 2019 at a redemption price equal to the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present values of the remaining schedule payments of principal and interest on the Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 100 basis points, plus in each case, accrued and unpaid interest on the Bonds being redeemed to the date fixed for redemption.

The Bonds are also subject to optional redemption prior to maturity on or after July 1, 2019, in whole or in part, at a redemption price equal to the principal amount of Bonds to be redeemed plus accrued interest to the date of redemption. On February 18, 2020 the Association Board of Directors approved an early redemption in the amount of $45 million and directed Association staff to request approval from the Commissioner of Insurance. On February 24, 2020, the Association received approval from the Commissioner of Insurance to redeem the requested $45 million of bond principal. The redemption was completed on May 11, 2020.

As of December 31, 2020 and 2019, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred is recorded as a nonoperating expense and was $21,999 and $28,343 for the years ended December 31, 2020 and 2019, respectively, and is included in the statements of revenues, expenses and changes in net position. Interest expense of $25,769 and $30,401 was paid for the years ended December 31, 2020 and 2019, respectively. Interest payable was $9,372 and $13,142 as of December 31, 2020 and 2019, respectively, and is included in borrowed money – bonds and interest payable in the statements of net position.

**(Amounts in Thousands)**

Changes in borrowed money - bonds payable for the year ended December 31, 2020 is as follows:

| Description | | Bonds Outstanding January 1, 2020 | | Bonds Issued | | Bonds Matured/Redeemed | | Bonds Outstanding December 31, 2020 |
|---|---|---|---|---|---|---|---|---|
| Taxable Series 2014 | **$** | **318,600** | **$** | **-** | **$** | **91,400** | **$** | **227,200** |

Changes in borrowed money - bonds payable for the year ended December 31, 2019 is as follows:

| Description | | Bonds Outstanding January 1, 2018 | | Bonds Issued | | Bonds Matured | | Bonds Outstanding December 31, 2018 |
|---|---|---|---|---|---|---|---|---|
| Taxable Series 2014 | $ | 368,500 | $ | - | $ | 49,900 | $ | 318,600 |

The aggregate maturities for the next five years and thereafter is as follows:

| *Years ending December 31,* | | Amount |
|---|---|---|
| 2021 | $ | 50,200 |
| 2022 | | 54,400 |
| 2023 | | 58,900 |
| 2024 | | 63,700 |
| 2025 | | - |
| On Demand | | - |
| | $ | 227,200 |

**9. Statutory Fund**

In 1993, the Texas legislature created the CRTF. At the end of each year and pursuant to administrative rules, the Association shall deposit the statutory net gain from operations of the Association in excess of incurred losses, operating expenses, public security obligations, and public security administrative expenses into the CRTF and/or purchase reinsurance. Pursuant to Tex. Ins. Code §2210.259, a surcharge is charged on non-compliant structures insured by the Association, and these surcharges are deposited monthly into the CRTF.

When an occurrence or series of occurrences in a catastrophe area occurs, the Association shall pay losses in excess of premium and other revenue of the Association from available reserves of the Association and available amounts in the CRTF. Administrative rules adopted by the commissioner of insurance establish the procedures relating to the disbursement of money from the CRTF.

The Texas Comptroller of Public Accounts ("comptroller") administers the CRTF in accordance with Tex. Ins. Code, Chapter 2210. All money, including investment income, deposited in the CRTF, are state funds to be held by the comptroller outside the state treasury on behalf of, and with legal title in the TDI until disbursed as provided by the Tex. Ins. Code, Chapter 2210 and administrative rules adopted by the TDI under the Association's Plan of Operation.

The CRTF may be terminated only by law. On termination of the CRTF, all assets of the CRTF revert to the State of Texas to provide funding for the mitigation and preparedness plan established under Tex. Ins. Code, §2210.454.

For the years ended December 31, 2020 and 2019, statutory fund costs were $0 and $52,641, respectively, based on the direction of the TDI and based on its interpretation of the relevant statutes. The Association is required to use the net gain from operations of the Association to make payments to the CRTF, procure reinsurance, or use alternative risk financing mechanisms. Although amounts held in the CRTF are not presented as assets in the statements of net position, once contributed to the CRTF, these funds will be held in trust with the TTSTC and will be available for the exclusive use of the Association to pay losses and expenses of the Association as permitted by law. No contribution to the CRTF has been accrued as of December 31, 2020, while the December 31, 2019 payable to the CRTF of $52,641 was remitted to the TTSTC on March 30, 2020.

For the years ended December 31, 2020 and 2019, the CRTF held $179,174 and $122,496, respectively.

In August 2017, the Texas coverage area insured by the Association was struck by Hurricane Harvey. The ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,700,000. The Act allows the Association to assess member companies Class 1 member assessments up to $500,000. A Class 1 member assessment was approved by the Commissioner of Insurance on May 25, 2018 for $175,000, a second Class 1 member assessment was approved on August 20, 2018 for $106,820, and a third Class 1 member assessment was approved on January 10, 2020 for $90,000 for a combined total of $371,820. As of December 31, 2020, $369,621 has been collected from the three assessments. One insurance group disputed whether they were subject to a 2018 assessment based on their interpretation of a 2017 legislative change. In 2020, the TDI Commissioner made a determination that the insurance group was not subject to the 2018 assessments. The insurance group's assessment of $2,199 has been non-admitted by the Association as of December 31, 2020. The outstanding assessment will be reallocated and collected from the other member companies. Further assessments will be requested if needed as Hurricane Harvey paid loss development matures. As of December 31, 2020 and 2019, the negative net position of the Association is $143,282 and $172,451, respectively.

**10. Depopulation**

Depopulation measures were introduced in the 84th Texas Legislature in 2015 authorizing assumption reinsurance agreements between the Association and the private market to facilitate depopulation. The Association implemented the Assumption Program in 2016 and continued the Assumption Program through 2020. As of December 31, 2020, four Assumption Program rounds have been completed. The program was restructured in 2020 and as a result, there was no round five implemented on December 1, 2020. Round 5 commenced in early 2021 and the novation to the carriers will occur on March 1, 2022.

Effective December 1, 2019, pursuant to measures introduced in the 84th Texas Legislature in 2015, the Association implemented year four of the Assumption Program. A total of 1,866 policies were identified and approved by agents for possible transfer from the Association to the participating private market insurers with 1,549 policies remaining as of December 31, 2019. Policies transferred to participating companies on June 1, 2020. Policyholders chose to remain with the Association by opting out of the Assumption Program by May 31, 2020. In connection with the Assumption Program, a 100% quota share reinsurance agreement was entered with two private market insurance companies effective December 1, 2019. Funds held by the Association under the Assumption Program as of December 31, 2019 were settled at the end of the treaty period, June 1, 2020.

As of December 31, 2020 and 2019, funds held by company under reinsurance treaties was $0 and $179, respectively, and is included in the statements of net position.

During 2020 and 2019, the Association recognized ceded written premiums of $740 and $1,691, respectively, as a result of the Assumption Program.

**(Amounts in Thousands)**

**11. Employee Benefit Plans**

Defined Benefit Plan

*Plan Description.* The Association is a participating employer in The Pension Plan for Insurance Organizations (PPIO) (the "Plan") which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The PPIO is an agent multi-employer defined benefit pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations (c/o Greenberg Traurig, LLP). The authority to establish and amend the benefit provisions of the plans that participate in the multiple-employer pension plan administered by The Named Fiduciaries of The Pension Plan for Insurance Organizations is assigned to the respective employer entities. For the Association, that authority rests with the Association's Board of Directors. The Named Fiduciaries of The Pension Plan for Insurance Organizations issue publicly available information about the Plan that is prepared to comply with the Employee Retirement Income Security Act of 1974 (ERISA). That information may be obtained from the plan administrator, The Named Fiduciaries of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP, 200 Park Avenue, 20th Floor, New York, NY 10166.

Covered employees are the only class of employees covered under the pension plan and are employees who have completed 1,000 hours of service within a 12-month consecutive period. The benefits are paid based on specific events and in the form of a monthly benefit payment. A lump sum benefit is payable if its present value of the monthly benefit is less than $20,000. The key elements of the pension formula consist of a percentage of average earnings multiplied by years and months of service. There are no automatic post-employment benefit changes or automatic cost of living adjustments affecting benefit payments.

*Employees covered by benefit terms:* As of December 31, 2020 and 2019, the following employees were covered by the benefit terms:

| *December 31,* | **2020** | 2019 |
|---|---|---|
| Inactive employees or beneficiaries currently receiving benefits | **55** | 50 |
| Inactive employees entitled to but not yet receiving benefits | **61** | 62 |
| Active employees | **218** | 220 |
| Total | **334** | 332 |

*Contributions.* PPIO members are not required to contribute to the Plan. The Association is required to contribute at an actuarially determined rate: current covered payroll rate is 14.98% percent and 15.34 percent of annual covered payroll for the years 2020 and 2019, respectively. The contribution requirements of plan members and the Association are established and may be amended by The Named Fiduciaries of the PPIO.

**(Amounts in Thousands)**

Net Pension Liability

The Association's net pension liability was measured as of December 31, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of these dates.

*Actuarial assumptions.* The total pension liability in the December 31, 2020 and 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

| *December 31,* | **2020** | 2019 |
|---|---|---|
| Inflation | **2.50%** | 2.50% |
| Salary increases | **2.50%** | 2.50% |
| Investment rate of return | **5.00%** | 5.50% |

As of December 31, 2020, mortality rates were based on the Pri-2012 separate employee, retiree and contingent annuitant rates, and the MP-2020 mortality improvement scale. As of December 31, 2019, mortality rates were based on the Pri-2012 white collar mortality tables with separate employee, retiree and contingent annuitant rates, and the MP-2019 mortality improvement scale.

*Long-term expected rate of return:* The long-term expected rate of return on pension plan investments was determined using an expected geometric mean return and portfolio weighting method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The overall 20-year geometric mean portfolio real return is 2.06% and 2.8% during 2020 and 2019, respectively. The overall 20-year geometric median portfolio real return is 1.92% and 2.7% during 2020 and 2019, respectively. The overall 20-year geometric 75th percentile portfolio real return is 2.95% and 3.7% during 2020 and 2019, respectively. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The pension valuation assumes an annual inflation rate of 2.5%. The expected returns above assume passive investing and do not include any premium for active management.

**(Amounts in Thousands)**

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2020 are summarized in the following table:

| Asset Class | Target Allocation | Expected geometric mean returns |
|---|---|---|
| Large cap U.S. equity | 18.2% | 4.29% |
| Mid cap U.S. equity | 5.6% | 4.30% |
| Small cap U.S. equity | 2.7% | 3.91% |
| Real estate | 4.8% | 2.66% |
| International equity | 9.5% | 4.29% |
| Fixed income | 59.0% | (0.08)% |
| Cash | 0.2% | (0.02%) |
| Total | 100.0% | |

The target allocation and best estimates of expected geometric mean returns for each major asset class during 2019 are summarized in the following table:

| Asset Class | Target Allocation | Expected geometric mean returns |
|---|---|---|
| Large cap U.S. equity | 16.5% | 4.41% |
| Mid cap U.S. equity | 5.2% | 4.41% |
| Small cap U.S. equity | 2.6% | 4.04% |
| Real estate | 5.1% | 3.12% |
| International equity | 7.5% | 4.41% |
| Fixed income | 61.3% | 1.35% |
| Cash | 1.8% | 0.64% |
| Total | 100.0% | |

*Discount Rate:* The discount rate used to measure the total pension liability was 4.50 percent and 5.50 percent during 2020 and 2019, respectively. Willis Towers Watson used their firm's proprietary capital market assumptions as of January 2020 for the various asset classes and applied those to the asset allocation of the PPIO as of January 1, 2020 to develop an overall average rate. As the Plan is a Qualified Plan under ERISA, the assumption has been made that the Plan will be sufficiently funded to pay benefits at all times. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There are no non-employer contributing entities and there are no employee contributions.

**(Amounts in Thousands)**

*Changes in Net Pension Liability.* The Association's changes in net pension liability for the years ended December 31, 2020 and 2019 were as follows:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| **Balance, January 1, 2020** | **$ 26,054** | **$ 21,548** | **$ 4,506** |
| Changes for the year: | | | |
| Service cost | **1,606** | **-** | **1,606** |
| Interest | **1,366** | **-** | **1,366** |
| Demographic losses | **373** | **-** | **373** |
| Contributions - employer | **-** | **2,568** | **(2,568)** |
| Net investment income | **-** | **2,426** | **(2,426)** |
| Assumption changes | **743** | **-** | **743** |
| Benefit payments | **(663)** | **(663)** | **-** |
| Administrative expenses | **-** | **77** | **(77)** |
| Balance, December 31, 2020 | **$ 29,479** | **$ 25,956** | **$ 3,523** |

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) – (b) |
|---|---|---|---|
| Balance, January 1, 2019 | $ 21,328 | $ 16,171 | $ 5,157 |
| Changes for the year: | | | |
| Service cost | 1,396 | - | 1,396 |
| Interest | 1,233 | - | 1,233 |
| Demographic losses | 317 | - | 317 |
| Contributions - employer | - | 2,360 | (2,360) |
| Net investment loss | - | 3,702 | (3,702) |
| Assumption changes | 2,377 | - | 2,377 |
| Benefit payments | (597) | (597) | - |
| Administrative expenses | - | (88) | 88 |
| Balance, December 31, 2019 | $ 26,054 | $ 21,548 | $ 4,506 |

**(Amounts in Thousands)**

*Sensitivity of the net pension liability to changes in the discount rate:* The following presents the net pension liability of the Association as of December 31, 2020 and 2019, respectively, calculated using the discount rate of 4.50 percent and 5.50 percent as well as what the Association's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50 percent and 4.50 percent) or 1-percentage-point higher (5.50 percent and 6.50 percent) than the current rate:

| *December 31, 2020* | 1% Increase (5.50%) | Current Discount Rate (4.50%) | 1% Decrease (3.50%) |
|---|---|---|---|
| Net pension liability | **$ (431)** | **$ 3,523** | **$ 8,382** |

| *December 31, 2019* | 1% Increase (6.50%) | Current Discount Rate (5.50%) | 1% Decrease (4.50%) |
|---|---|---|---|
| Net pension liability | $ 935 | $ 4,506 | $ 8,963 |

*Pension Plan Fiduciary Net Position:* The pension plan's basic financial statements can be obtained from the Plan Administrator located at: The Managing Fiduciary of The Pension Plan for Insurance Organizations, c/o Greenberg Traurig, LLP; 200 Park Avenue, 20th Floor; New York, NY 10166.

**(Amounts in Thousands)**

*Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension:* For the years ended December 31, 2020 and 2019, the Association recognized pension expense of $1,854 and $2,131, respectively. During December 31, 2020 and 2019, the Association allocated pension expense of $882 and $699, respectively, to TFPA. Net pension expense included in underwriting expenses in the statements of revenues, expenses and changes in net position was $972 and $1,432 for the years ended December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Association reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| *December 31, 2020* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | **$ 701** | **$ 113** |
| Changes in assumptions | **3,180** | **55** |
| Net difference between projected and actual earnings on plan investments | **-** | **2,183** |
| Total | **$ 3,881** | **$ 2,351** |

| *December 31, 2019* | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 468 | $ 183 |
| Changes in assumptions | 3,171 | 69 |
| Net difference between projected and actual earnings on plan investments | - | 1,588 |
| Total | $ 3,639 | $ 1,840 |

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| *Years ending December 31,* | Amount |
|---|---|
| 2021 | $ 119 |
| 2022 | 317 |
| 2023 | (58) |
| 2024 | 380 |
| 2025 | 566 |
| Thereafter | 206 |
| | $ 1,530 |

(Amounts in Thousands)

*Defined Contribution Plan:*
The Association has a defined contribution 401(k) plan available to eligible employees after six months of employment. Matching contributions totaling $935 and $949 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2020 and 2019, respectively. The Association's portion was approximately $644 and $645 for the years ended December 31, 2020 and 2019, respectively.

**12. Lease Commitments**
The Association leases office space under a non-cancellable operating lease agreement which expires in 2022. Future minimum lease payments, by year and in the aggregate, under a non-cancellable operating lease with initial or remaining terms of one year or more consisted of the following at December 31, 2020.

| *Years ending December 31,* | | Amount |
|---|---|---|
| 2021 | $ | 1,062 |
| 2022 | | 1,088 |
| 2023 | | - |
| 2024 | | - |
| 2025 and thereafter | | - |
| | $ | 2,150 |

Rental expense under the non-cancelable operating lease was approximately $1,413 and $1,422 for the years ended December 31, 2020 and 2019, respectively.

**13. Commitments and Contingencies**
The Association is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters in excess of the amounts provided will not have a material adverse effect on the financial position of the Association. These matters are subject to various uncertainties, and some of these matters may be resolved unfavorably to the Association.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2020. The line of credit agreement was entered into June 1, 2020 subsequent to the Association's Board of Directors approval on May 12, 2020. No amounts have been drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.8% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2021, however, the line of credit was terminated by the Association on December 28, 2020 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2019. The line of credit agreement was entered into July 1, 2019 subsequent to the Association's board of directors approval on May 7, 2019. No amounts were drawn against the line of credit. Issuance fees for the committed line of credit were $500 and the Association pays the lenders a 0.4% commitment fee against the unused portion of the line of credit. The commitment originally matured May 27, 2020, however the line of credit was terminated by the Association on December 26, 2019 without penalty.

**14. Concentration of Credit Risk**

The Association maintains deposits of cash in excess of federally insured limits with certain financial institutions. The Association has not experienced any losses in such accounts and believes they are not exposed to any significant credit risk on cash.

The Association writes windstorm and hail coverage primarily in the 14 counties along the Texas coast in which it has approximately $61,000,000 of insurance exposure as of December 31, 2020 and 2019.

**15. Fair Value Measurements**

GASB Statement No. 72, Fair Value Measurement and Application, ("GASB Statement No. 72") requires the Association to make estimates of the fair value for financial assets and financial liabilities based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Association's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Fair values are based on inputs using quoted prices (unadjusted) for identical assets or liabilities in active markets that can be accessed on the measurement date.

- Level 2 – Fair values are based on inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

- Level 3 – Fair values are based on unobservable inputs for an asset or liability.

The Association's financial assets measured at estimated fair value on a recurring basis included cash as of December 31, 2020 and 2019 as follows:

- Cash of $196,419 and $209,840, respectively, is valued using quoted market prices (Level 1 inputs).

- Reverse repurchase agreements of $83,406 and $82,016, respectively, are valued using quoted market prices (Level 1 inputs).

In accordance with GASB Statement No. 72, cash equivalents that were measured at NAV have not been classified in the fair value hierarchy. The investment strategy for the Association is to hold highly liquid cash and cash equivalents for funding catastrophe events. The Association does not believe that the assets stated at NAV have any significant restrictions to liquidate or to be sold for less than NAV. The Association's financial assets measured at NAV included in cash equivalents as of December 31, 2019 and 2018 are as follows:

- Money market mutual funds of $201,851 and $222,755, respectively, are valued using NAV per share of $1.

The Association has no financial liabilities measured at estimated fair value on a recurring basis.

**16. Subsequent Events**

The Association has evaluated subsequent events occurring after December 31, 2020, the date of the most recent statements of net position through April 26, 2021, the date the financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the financial statements.

# Required Supplementary Information

# Texas Windstorm Insurance Association

## Schedules of Changes in Net Pension Liability and Related Ratios
### (Amounts in Thousands)

| *December 31,* | **2020** | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|
| **Total pension liability:** | | | | | | | | |
| Service cost | **$ 1,606** | $ 1,396 | $ 1,378 | $ 1,116 | $ 1,043 | $ 880 | $ 812 | $ 867 |
| Interest | **1,366** | 1,233 | 1,109 | 1,018 | 951 | 848 | 716 | 673 |
| Plan amendments | **-** | - | - | - | - | 398 | - | - |
| Demographic losses (gains) | **373** | 317 | 133 | (105) | 58 | 146 | (455) | 1 |
| Assumption changes | **743** | 2,377 | 221 | (113) | 1,046 | 481 | 728 | - |
| Benefit payments | **(663)** | (597) | (578) | (506) | (511) | (428) | (360) | (276) |
| Net change in total pension liability | **3,425** | 4,726 | 2,263 | 1,410 | 2,587 | 2,325 | 1,441 | 1,265 |
| Total pension liability – beginning | **26,054** | 21,328 | 19,065 | 17,655 | 15,068 | 12,743 | 11,302 | 10,037 |
| Total pension liability – ending | **$ 29,479** | $ 26,054 | $ 21,328 | $ 19,065 | $ 17,655 | $ 15,068 | $ 12,743 | $ 11,302 |
| **Plan fiduciary net position:** | | | | | | | | |
| Contributions – employer | **$ 2,568** | $ 2,360 | $ 2,180 | $ 1,594 | $ 1,024 | $ 931 | $ 1,034 | $ 1,034 |
| Net investment income (loss) | **2,426** | 3,702 | (959) | 1,870 | 869 | (134) | 759 | 1,076 |
| Benefit payments | **(663)** | (597) | (578) | (506) | (511) | (428) | (360) | (276) |
| Administrative expenses | **77** | (88) | (69) | (72) | (75) | (53) | (55) | (49) |
| Net change in plan fiduciary net position | **4,408** | 5,377 | 574 | 2,886 | 1,307 | 316 | 1,378 | 1,785 |
| Plan fiduciary net position – beginning | **21,548** | 16,171 | 15,597 | 12,711 | 11,404 | 11,088 | 9,710 | 7,925 |
| Plan fiduciary net position – ending | **$ 25,956** | $ 21,548 | $ 16,171 | $ 15,597 | $ 12,711 | $ 11,404 | $ 11,088 | $ 9,710 |
| Net pension liability - ending | **$ 3,523** | $ 4,506 | $ 5,157 | $ 3,468 | $ 4,944 | $ 3,664 | $ 1,655 | $ 1,592 |
| Plan fiduciary net position as a percentage of the total pension liability | **88.05%** | 82.71% | 75.82% | 81.81% | 72.00% | 75.68% | 87.01% | 85.91% |
| Covered payroll | **$ 15,730** | $ 15,388 | $ 15,086 | $ 12,747 | $ 13,214 | $ 13,847 | $ 13,365 | $ 12,359 |
| Net pension liability as a percentage of covered payroll | **22.40%** | 29.28% | 34.18% | 27.21% | 37.41% | 26.46% | 12.38% | 12.88% |

*See accompanying independent auditors' report.*

# Texas Windstorm Insurance Association

## Schedules of Employer Contributions
(Amounts in Thousands)

| Date | Actuarial Determined Contribution | Contributions in Relation to Actuarially Determined Contribution | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a % of Covered Payroll |
|---|---|---|---|---|---|
| 2020 | $ 2,568 | $ 2,568 | $ - | $ 15,730 | 16.33% |
| 2019 | $ 2,360 | $ 2,360 | $ - | $ 15,388 | 15.34% |
| 2018 | $ 2,180 | $ 2,180 | $ - | $ 15,086 | 14.45% |
| 2017 | $ 1,594 | $ 1,594 | $ - | $ 12,747 | 12.50% |
| 2016 | $ 1,024 | $ 1,024 | $ - | $ 13,214 | 7.75% |
| 2015 | $ 931 | $ 931 | $ - | $ 13,847 | 6.72% |
| 2014 | $ 1,034 | $ 1,034 | $ - | $ 13,365 | 7.74% |
| 2013 | $ 1,034 | $ 1,034 | $ - | $ 12,359 | 8.37% |

*See accompanying independent auditors' report.*