Texas Windstorm Insurance Association

Statutory Financial Statements and Supplemental Information

Years Ended December 31, 2022 and 2021

Calhoun, Thomson+Matza, LLP
Certified Public Accountants

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Contents

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Accountants' Letter of Qualifications

Board of Directors
Texas Windstorm Insurance Association

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statutory financial statements of Texas Windstorm Insurance Association (the "Association") for the years ended December 31, 2022 and 2021, and have issued our report thereon dated April 27, 2023. In connection therewith, we advise you as follows:

a. We are independent certified public accountants with respect to the Association and conform to the standards of the accounting profession as contained in the Code of Professional Conduct and pronouncements of the American Institute of Certified Public Accountants, and the Rules of Professional Conduct of the Texas State Board of Public Accountancy.

b. The engagement partner, who is a certified public accountant, has 29 years of experience in public accounting and is experienced in auditing insurance enterprises. Members of the engagement team, most of whom have had experience in auditing insurance enterprises and most of whom are certified public accountants, were assigned to perform tasks commensurate with their training and experience.

c. We understand that the Association intends to file its audited statutory financial statements and our report thereon with the Texas Department of Insurance and that the Insurance Commissioner of that state will be relying on that information in monitoring and regulating the statutory financial condition of the Association.

   While we understand that an objective of issuing a report on the statutory financial statements is to satisfy regulatory requirements, our audit was not planned to satisfy all objectives or responsibilities of insurance regulators. In this context, the Association and Insurance Commissioner should understand that the objective of an audit of statutory financial statements in accordance with auditing standards generally accepted in the United States of America is to form an opinion and issue a report on whether the statutory financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds, results of operations and cash flows in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance. Consequently, under auditing standards generally accepted in the United States of America, we have the responsibility, within the inherent limitations of the auditing process, to plan and perform our audit to obtain reasonable assurance about whether the statutory financial statements are free of material misstatement, whether caused by error or fraud, and to exercise due professional care in the conduct of the audit. The concept of selective testing of the data being audited, which involves judgment both as to the number of transactions to be audited and the areas to be tested, has been generally accepted as a valid and sufficient basis for an auditor to express an opinion on financial statements. Audit procedures that are effective for detecting errors, if they exist, may be ineffective for detecting misstatements resulting from fraud. Because of the characteristics of fraud, particularly those involving concealment and falsified documentation (including forgery), a properly planned and performed audit may not detect a material misstatement resulting from fraud. In addition, an audit does not address the possibility that material misstatements resulting from fraud may occur in the future. Also, our use of professional judgment and the assessment of materiality for the purpose of our audit means that matters may exist that would have been assessed differently by the Insurance Commissioner.

It is the responsibility of the management of the Association to adopt sound accounting policies, to maintain an adequate and effective system of accounts, and to establish and maintain an internal control structure that will, among other things, provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting practices prescribed or permitted by the Texas Department of Insurance.

The Insurance Commissioner should exercise due diligence to obtain whatever other information that may be necessary for the purpose of monitoring and regulating the statutory financial position of insurers and should not rely solely upon the independent auditor's report.

d. We will retain the workpapers prepared in the conduct of our audit until the Texas Department of Insurance has filed a Report of Examination covering 2022, but not longer than seven years. After notification to the Association, we will make the workpapers available for review by the Texas Department of Insurance at the offices of the insurer, at our offices, at the Insurance Department or at any other reasonable place designated by the Insurance Commissioner. Furthermore, in the conduct of the aforementioned periodic review by the Texas Department of Insurance, photocopies of pertinent audit working papers may be made (under the control of the accountant) and such copies may be retained by the Texas Department of Insurance.

e. The engagement partner has served in that capacity with respect to the Association since 2018, is licensed by the Texas State Board of Public Accountancy, and is a member in good standing of the American Institute of Certified Public Accountants.

f. To the best of our knowledge and belief, we are in compliance with the requirements of section 7 of the NAIC's Model Rule (Regulation) Requiring Annual Audited Financial Reports regarding qualifications of independent certified public accountants.

This letter is intended solely for the information and use of the Texas Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Cah. Thomas & Matza, LLP

April 27, 2023

Calhoun, Thomson+Matza LLP
Certified Public Accountants

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Independent Auditors' Report

Board of Directors
Texas Windstorm Insurance Association
Austin, Texas

Opinions on Statutory Basis of Accounting

We have audited the statutory basis financial statements of Texas Windstorm Insurance Association (the "Association"), which comprise the statutory basis statements of admitted assets, liabilities, surplus and other funds as of December 31, 2022 and 2021, and the related statutory statements of income and changes in surplus and other funds, and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying statutory basis financial statements present fairly, in all material respects, the admitted assets, liabilities, surplus and other funds of the Association as of December 31, 2022 and 2021, and the results of its operations, changes in its capital and surplus, and its cash flows for the years then ended in accordance with the statutory accounting practices prescribed or permitted by the Texas Department of Insurance as described in the Summary of Significant Accounting Policies – "Basis of Accounting".

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of the report, the statutory basis financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2022 and 2021, or the results of its operations and its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Statutory Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the Summary of Significant Accounting Policies – "Basis of Accounting" of the statutory basis financial statements, the statutory basis financial statements are prepared by the Association on the basis of the accounting practices prescribed or permitted by the Texas Department of Insurance, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Because of the differences between statutory basis accounting principles and accounting principles generally accepted in the United States of America identified above, as of December 31, 2022 and 2021 total assets were lower by approximately $37.0 million and $20.9 million, respectively. The differences identified above reduced total net position as of December 31, 2022 and 2021 by approximately $17.2 million and $24.8 million, respectively. The effects on change in net position for the years ended December 31, 2022 and 2021 were immaterial.

Emphasis of Matters

As of December 31, 2022, the Association had approximately $84 billion of insurance exposure in certain designated counties located in the gulf coast region of the State of Texas. By state statute, any net gain from operations must be paid to the Catastrophe Reserve Trust Fund ("CRTF"). As of December 31, 2022, the balance in the CRTF was approximately $190.0 million. If a major claim event occurs in the future, it could have a severe impact on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

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 all these public securities and the sufficiency of that amount to cover future losses will depend upon market conditions and the financial and operating results of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

Ultimate loss projections for Hurricane Harvey were estimated to be $1.66 billion by the Association's appointed actuary as of December 31, 2022. If the ultimate loss projection changes in the future it could have a material adverse effect on the financial condition of the Association. The auditors' opinion is not modified with respect to the matter emphasized.

Responsibilities of Management for the Statutory Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with accounting practices prescribed or permitted by the Texas Department of Insurance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the statutory basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the statutory basis financial statements are issued or available to be issued.

Auditors' Responsibilities for the Audit of the Statutory Financial Statements

Our objectives are to obtain reasonable assurance about whether the statutory basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the statutory basis financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the statutory basis financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the statutory basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matter – Supplementary Information

Our audits of the statutory basis financial statements were conducted for the purpose of forming an opinion on those statutory basis financial statements taken as a whole. The accompanying supplemental summary investment schedule, investment risk interrogatories, and the reinsurance interrogatories as of and for the year ended December 31, 2022, are presented for purposes of additional analysis and are not a required part of the basic statutory basis financial statements but is supplementary information required by the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and Texas state law.

The accompanying supplementary information is the responsibility of the Association's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory basis financial statements. Such information has been subjected to the auditing procedures applied in our audits of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated in all material respects in relation to the basic statutory basis financial statements taken as a whole.

Calhoun, Thomson & Matza, LLP

April 27, 2023

Texas Windstorm Insurance Association

Statutory Statements of Admitted Assets, Liabilities, Surplus and Other Funds
(Amounts in Thousands)

December 31,		2022		2021
Admitted Assets				
Cash and cash equivalents	$	**483,870**	$	493,827
Uncollected premiums and agents' balances in the course of collection		**2,880**		81
Deferred premiums, agents' balances and installments booked but deferred		**22,090**		1,832
Other assets		**2,012**		1,195
Total admitted assets	$	**510,852**	$	496,935
Liabilities, Surplus and Other Funds				
Liabilities:				
Loss and loss adjustment expenses	$	**58,175**	$	77,585
Borrowed money – bonds and interest payable		**-**		184,301
Underwriting expenses payable		**14,701**		12,540
Unearned premiums		**277,334**		202,525
Ceded reinsurance premiums payable, net of ceding commissions		**33,331**		25,951
Statutory fund payable		**74,962**		-
Other liabilities		**13,706**		18,617
Total liabilities		**472,209**		521,519
Commitments and contingencies (Notes 7, 8, 9, 12, 14 and 15)				
Surplus and other funds:				
Unassigned surplus (deficit)		**38,643**		(24,584)
Total liabilities and surplus and other funds	$	**510,852**	$	496,935

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

Texas Windstorm Insurance Association

Statutory Statements of Income
(Amounts in Thousands)

Years ended December 31,		**2022**		2021
Underwriting income:				
Premiums earned	$	**443,490**	$	378,504
Premiums ceded		**(132,095)**		(102,132)
Net premiums earned		**311,395**		276,372
Deductions:				
Losses and loss expenses incurred		**51,248**		19,048
Underwriting expenses incurred		**120,050**		95,933
Total underwriting deductions		**171,298**		114,981
Net underwriting gain		**140,097**		161,391
Investment loss:				
Net investment loss		**(3,386)**		(18,578)
Other income:				
Other income		**36**		-
Total other income		**36**		-
Net income before statutory fund cost federal income tax expense		**136,747**		142,813
Statutory fund cost		**74,962**		-
Net income before federal income tax expense		**61,785**		142,813
Federal income taxes incurred		**-**		-
Net income	$	**61,785**	$	142,813

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

Texas Windstorm Insurance Association

Statutory Statements of Changes In Surplus and Other Funds
(Amounts in Thousands)

		Unassigned Deficit
Balance at January 1, 2021	$	(160,451)
Net income		142,813
Change in nonadmitted assets		(8,984)
Other		2,038
Balance at December 31, 2021		(24,584)
Net income		61,785
Change in nonadmitted assets		(1,633)
Other		3,075
Balance at December 31, 2022	$	38,643

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

Texas Windstorm Insurance Association

Statutory Statements of Cash Flows
(Amounts in Thousands)

Years ended December 31,		2022		2021
Cash from operations:				
Premiums collected, net of reinsurance	$	**366,302**	$	295,476
Net investment loss		**(5,067)**		(19,289)
Miscellaneous income		**203**		-
Benefit and loss related payments		**(47,047)**		(75,140)
Commissions, expenses paid and aggregate write-ins for deductions		**(140,782)**		(124,291)
Net cash from operations		**173,609**		76,756
Cash from financing and miscellaneous sources:				
Principal and interest paid		**(184,301)**		(52,271)
Other cash provided (applied)		**735**		(12,334)
Net cash from financing and miscellaneous sources		**(183,566)**		(64,605)
Net change in cash and cash equivalents		**(9,957)**		12,151
Cash and cash equivalents, beginning of year		**493,827**		481,676
Cash and cash equivalents, end of year	$	**483,870**	$	493,827

See accompanying summary of significant accounting policies and notes to statutory 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 $4.236 billion in funding was secured for the 2022 hurricane season. SB 900, passed by the 84th Texas Legislature, took effect during 2015, and changed the Association's funding structure. $4.236 billion is sufficient to fund claims associated with 99% of all modeled hurricane seasons, or a 1 in 100-year season as required by statute.

The Association's funding structure for the 2022 hurricane season is, in order;

- Funds available in the Catastrophe Reserve Trust Fund
- $500,000 in pre/post-event 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
- $2.036 billion in total reinsurance, including both traditional reinsurance and catastrophe bonds

(Amounts in Thousands)

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 Reinsurance Depopulation Program ("Assumption Program") in 2016 and the program is still in effect as of December 31, 2022. One private market insurer participated in the 2022-2023 and 2021-2022 programs. The novations occurred on March 1, 2023 and 2022, and consisted of 46 and 125 policies, respectively. Approximately 16,000 policies have been novated through December 31, 2022 since the inception of the Assumption Program.

Basis of Accounting

The accompanying financial statements have been prepared on a statutory basis in accordance with accounting practices prescribed or permitted by the TDI. Prescribed statutory accounting practices include state laws, regulations and general administrative rules applicable to all insurance companies domiciled in the State of Texas and the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual. Permitted statutory practices include practices not prescribed but allowed by the TDI.

Reconciliations of net income and policyholders' deficit between the amounts reported in the accompanying financial statements (Texas basis) and NAIC statutory accounting practices ("SAP") follow:

Years ended December 31,		**2022**		2021
Net income, Texas basis	**$**	**61,785**	$	142,813
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		-
Net income, NAIC SAP basis	**$**	**61,785**	$	142,813

December 31,		**2022**		2021
Statutory surplus (deficit), Texas basis	**$**	**38,643**	$	(24,584)
Effect of Texas prescribed practices		**-**		-
Effect of Texas permitted practices		**-**		(69,002)
Policyholders' surplus (deficit), NAIC SAP basis	**$**	**38,643**	$	(93,586)

The TDI has approved the permitted practice to allow the Association to admit the following restricted assets associated with the issuance of Series 2014 Pre-Event Class 1 Revenue Bonds (the "Bonds") as of December 31, 2022 and 2021, respectively:

- $0 and $69,002 held in the obligation revenue fund for repayment of the Bonds.

The restrictions are primarily due to debt service reserves and use of proceeds only when a large hurricane event occurs. The permitted practice will last the life of the Bonds or until rescinded by the TDI at an earlier date.

Significant differences between statutory accounting practices and accounting principles generally accepted in the United States of America ("GAAP"), as they relate to the Association include the following:

a) Certain assets designated as "non-admitted assets" are charged directly against surplus rather than capitalized and charged to income as used. These include certain past due member assessments, fixed assets, prepaid expenses and other assets.

b) Unearned premiums and loss and loss adjustment expense ("LAE") reserves are presented net of related reinsurance rather than on a gross basis as required under GAAP.

c) The statements of cash flows represent cash balances and cash equivalents with initial maturities of one year or less rather than cash and cash equivalents with initial maturities of three months or less.

Use of Significant Estimates
The preparation of financial statements in accordance with statutory accounting practices prescribed or permitted by the TDI requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and 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.

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.

Furniture, Equipment and Depreciation
Furniture and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 3-5 years. Amounts have been non-admitted.

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, 2022, the statute of limitations remains open for the 2019 to 2022 tax years. No further federal income tax impact is expected in the future.

Premiums

All policies issued by the Association have a maximum term of one year from date of issuance. Premiums earned are taken into income over the periods covered by the policies whereas the related acquisition costs are expensed when incurred. Premiums are generally recognized as revenue on a pro-rata basis over the policy term once the policy is effective. Unearned premiums, net of deductions for reinsurance, are computed on a pro-rata basis over the term of the policies.

Those premiums received for policies issued but not effective as of year-end are included in other liabilities within the Association's statutory statements of admitted assets, liabilities, surplus and other funds.

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 statutory statements of admitted assets, liabilities, surplus and other funds.

Loss and Loss Adjustment Expense Reserves
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.

Fair Value Measurements
Statement of Statutory Accounting Principles ("SSAP") No. 100R, Fair Value, requires disclosures of the aggregate fair value of all financial instruments, summarized by type of financial instrument, for which it is practicable to estimate fair value. SSAP No. 100R excludes obligations for pension benefits, substantively extinguished debt, insurance contracts, lease contracts, warranty obligations and rights, investments accounted for under the equity method and equity instruments issued by the entity. Accordingly, the aggregate fair value amounts presented herein do not necessarily represent the underlying value of the Association; similarly, care should be exercised in deriving conclusions about the Association's business or financial condition based on the fair value information presented herein.

The Association is required to categorize its assets and liabilities that are measured at fair value into the three-level fair value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows:

- Level 1 – Fair values are based on quoted prices in active markets for identical assets or liabilities that the Association has the ability to access as of the measurement date.

- Level 2 – Fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that can otherwise be corroborated by observable market data.

- Level 3 – Fair values are based on inputs that are considered unobservable where there is little, if any, market activity for the asset or liability as of the measurement date. In this circumstance, the Association has to rely on values derived by independent brokers or internally-developed assumptions. Unobservable inputs are developed based on the best information available to the Association which may include the Association's own data.

(Amounts in Thousands)

1. Cash and Cash Equivalents

Cash and cash equivalents are as follows:

December 31,		**2022**		2021
Cash	$	**222,016**	$	177,437
Cash equivalents:				
Reverse repurchase agreements		**-**		69,002
Money market mutual funds		**261,854**		247,388
Total cash equivalents		**261,854**		316,390
	$	**483,870**	$	493,827

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 $261,854 and $247,388 as of December 31, 2022 and 2021, respectively. The admitted value of money market mutual funds was $261,854 and $247,388 as of December 31, 2022 and 2021, 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 12). 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 $0 and $69,002 as of December 31, 2022 and 2021, respectively. The admitted value of reverse repurchase agreements was approximately $0 and $69,002 as of December 31, 2022 and 2021, respectively, and is included in cash and cash equivalents in the statutory statements of admitted assets, liabilities, surplus and other funds.

Repurchase agreements were Tri-Party during the years ended December 31, 2022 and 2021.

(Amounts in Thousands)

Original (flow) & residual maturity

Fourth Quarter 2022				
		Maximum		Ending Balance
Overnight	$	-	$	-

Fourth Quarter 2021				
		Maximum		Ending Balance
Overnight	$	69,002	$	69,002

Securities acquired under repurchase agreements - sale

Fourth Quarter 2022				
		Maximum		Ending Balance
BACV	$	-	$	-
Nonadmitted – subset of BACV		-		-
Fair value	$	-	$	-

Book/Adjusting Carrying Value ("BACV")

Fourth Quarter 2021				
		Maximum		Ending Balance
BACV	$	69,002	$	69,002
Nonadmitted – subset of BACV		-		-
Fair value	$	69,002	$	69,002

Securities acquired under repurchase agreements – sale by NAIC designation

December 31, 2022	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	-	-	-	-	-	-	-
Total assets – BACV	-	-	-	-	-	-	-	-
Total assets - FV	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2021	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Nonadmitted
Other invested assets – BACV	$ -	$ 69,002	$ -	$ -	$ -	$ -	$ -	$ -
Other invested assets – FV	-	69,002	-	-	-	-	-	-
Total assets – BACV	-	69,002	-	-	-	-	-	-
Total assets - FV	$ -	$ 69,002	$ -	$ -	$ -	$ -	$ -	$ -

Proceeds Provided - Sale

	Fourth Quarter 2022	
	Maximum	Ending Balance
Cash	$ -	$ -
Securities (FV)	-	-
Securities (BACV)	-	-
Nonadmitted subset	$ -	$ -

	Fourth Quarter 2021	
	Maximum	Ending Balance
Cash	$ 69,002	$ 69,002
Securities (FV)	-	-
Securities (BACV)	-	-
Nonadmitted subset	$ -	$ -

Recognized forward resale commitment

	Fourth Quarter 2022	
	Maximum	Ending Balance
Recognized forward resale commitment	$ -	$ -

	Fourth Quarter 2021	
	Maximum	Ending Balance
Recognized forward resale commitment	$ 69,002	$ 69,002

2. **Restricted Assets**

Restricted assets are summarized below by restricted asset category. Certain assets included in the subject to reverse repurchase category are held by the TTSTC and are restricted for use for debt service reserves and for when a catastrophic event occurs (See Note 12). These assets are invested in overnight reverse repurchase agreements.

	Gross (Admitted & Nonadmitted) Restricted								Current Year		
	Current Year									Percentage	
	1	2	3	4	5	6	7	8	9	10	11
Restricted Asset Category	Total General Account (G/A)	G/A Supporting S/A Restricted Assets (a)	Total Separate Account (S/A) Restricted Assets	S/A Assets Supporting G/A Activity (b)	Total (1 plus 3)	Total From Prior Year	Increase / (Decrease) (5 minus 6)	Total Non-admitted Restricted	Total Admitted Restricted (5 minus 8)	Gross (Admitted & Non-Admitted) Restricted to Total Assets (c)	Admitted Restricted to Total Admitted Assets (d)
Subject to reverse repurchase	$ -	$ -	$ -	$ -	$ -	$ 69,002	$ (69,002)	$ -	$ -	-	-
Total restricted assets	$ -	$ -	$ -	$ -	$ -	$ 69,002	$ (69,002)	$ -	$ -	-	-

(Amounts in Thousands)

3. **Furniture and Equipment**
Furniture and equipment consist of the following:

December 31,		2022		2021
Furniture and equipment	$	**768**	$	540
Electronic data processing equipment and software		**25,670**		23,970
Leasehold improvements		**1,994**		1,858
		28,432		26,368
Less: accumulated depreciation		**(13,123)**		(12,621)
		15,309		13,747
Less: non-admitted furniture and equipment		**(15,309)**		(13,747)
	$	**-**	$	-

Depreciation and amortization expense was approximately $2,359 and $205 for the years ended December 31, 2022 and 2021.

4. **Reinsurance**
During 2022 and 2021, 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, 2022, 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 $2,200,000, subject to a limit of liability to the reinsurer of $2,036,000.

Effective June 1, 2021, 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 $1,930,000.

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 Program (See Note 13).

The Association has unsecured reinsurance recoverables which exceed 3% of the Association's surplus with the following reinsurers as of December 31, 2022 and 2021 as a result of the Assumption Program:

Name of reinsurer	**2022**	2021
Weston Insurance Company	**$ -**	$ 40
Safepoint Insurance Company	**6**	-
United Property & Casualty Insurance Company	**-**	-
Total	**$ 6**	$ 40

(Amounts in Thousands)

The effect of reinsurance on premiums written and earned for the years ended December 31, 2022 and 2021 is as follows:

	2022		2021	
	Written	**Earned**	Written	Earned
Direct premium	$ **518,299**	$ **443,490**	$ 395,113	$ 378,504
Excess of loss ceded premium	**(132,095)**	**(132,095)**	(102,132)	(102,132)
Net	$ **386,204**	$ **311,395**	$ 292,981	$ 276,372

Ceded premiums include premiums ceded to companies that assume policies pursuant to the Assumption Program (see Note 13).

As of December 31, 2022 and 2021, the Association had reinsurance recoverables of $0 on paid losses and LAE as a result of the Assumption Program.

5. **Unearned Premiums**

Unearned premiums are reported net of ceded unearned premiums as follows:

December 31,	**2022**	2021
Gross unearned premiums	$ **277,334**	$ 202,525
Ceded unearned premiums	-	-
	$ **277,334**	$ 202,525

The amount of return commission that would have been due to reinsurers if they or the Association had cancelled the Association's excess of loss reinsurance agreement would have been $0 as of December 31, 2022 and 2021.

(Amounts in Thousands)

6. Loss and Loss Adjustment Expenses

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,	**2022**	2021
Beginning balance	$ **77,625**	$ 164,401
Less: reinsurance recoverable	**40**	86
Beginning net balance	**77,585**	164,315
Incurred related to:		
Current loss year	**40,639**	83,525
Prior loss years	**10,609**	(64,477)
Losses and loss adjustment expense incurred	**51,248**	19,048
Paid related to:		
Current loss year	**28,938**	61,725
Prior loss years	**41,720**	44,053
Paid losses and loss adjustment expense	**70,658**	105,778
Ending net balance	**58,175**	77,585
Plus: reinsurance recoverable	**6**	40
Ending balance	$ **58,181**	$ 77,625

Current year changes in estimates of the cost of prior year losses and LAE affect the current year statutory statements of income. 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 statutory statements of income of $51,248 had unfavorable prior year development due to prior year large storm activity development offset by Hurricane Harvey development. Ultimate loss and LAE from Hurricane Harvey are estimated to be approximately $1,660,000 as of December 31, 2022, down $10 million from 2021 due to favorable development. During 2021, the estimated reserves related to 2020 storms were revised and contributed to favorable development in 2021 in excess of $15 million. The coverage area insured by the Association was previously impacted by Hurricane Harvey in 2017. 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 loss adjustment expense 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, 2022 and 2021 make a reasonable provision for the Association's claim liabilities.

7. **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 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 there is an occurrence or series of occurrences in a catastrophe area, 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, 2022 and 2021, statutory fund costs were $74,962 and $0, based on the direction of the TDI and based on its interpretation of the relevant statutes. TDI's directive requires the Association to determine its net gain from operations based on catastrophe-year incurred losses, rather than calendar year reported losses. Starting at the end of calendar year 2018, 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 statutory statements of admitted assets, liabilities, surplus and other funds, 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. A contribution to the CRTF in the amount of $74,962 has been accrued as of December 31, 2022. No contribution to the CRTF has been accrued as of December 31, 2021, as net gain from operations was used to redeem the remaining outstanding principal on the Bonds in 2022 (See Note 12).

For the years ended December 31, 2022 and 2021, the CRTF held $190,004 and $182,712, 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 $1,660,000. 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, 2022 and 2021. 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, 2022 and 2021, the surplus/(deficit) of the Association is $38,643 and $(24,584), respectively.

(Amounts in Thousands)

8. Employee Benefit Plans

Defined Benefit Plan. The Association has a defined benefit pension plan (the "Plan"), which covers employees from their date of hire, if the employee is scheduled to work at least 1,000 hours in a twelve-month period. Pension benefits are based on years of service and the employee's compensation during the five highest consecutive years' earnings from the last ten years of employment. An employee's benefits vest 5 years from date of hire. The Association makes contributions to the Plan that comply with the minimum funding provisions of the Employee Retirement Income Security Act. Such contributions are included in general expenses. As of December 31, 2022 and 2021, the Association accrued in accordance with actuarially determined amounts with an offset to the pension cost accrual for the incremental asset amortization.

The following sets forth a summary of projected benefit obligations, plan assets, funded status, benefit costs and assumptions of the defined benefit pension plan as follows:

December 31,		**2022**		2021
Change in Projected Benefit Obligations (PBO) (Underfunded):				
Benefit obligation at beginning of year	$	**38,949**	$	36,590
Service cost		**2,755**		2,794
Interest cost		**1,255**		1,115
Actuarial (gain) loss		**(14,353)**		(925)
Benefits paid		**(670)**		(625)
Projected benefit obligation at end of year		**27,936**		38,949
Change in Plan Assets:				
Fair value of plan assets at beginning of year		**30,127**		25,955
Actual return on plan assets		**(10,083)**		1,836
Employer contributions		**3,516**		2,961
Benefits paid		**(670)**		(625)
Fair value of plan assets at end of year		**22,890**		30,127
Funded status	$	**(5,046)**	$	(8,822)

(Amounts in Thousands)

December 31,		**2022**		2021
Funded Status:				
Assets (non-admitted):				
Prepaid benefit costs	$	-	$	-
Total assets (non-admitted)		-		-
Liabilities recognized:				
Accrued benefit costs		**2,225**		2,926
Liability for pension benefits		**2,821**		5,896
Total liabilities recognized		**5,046**		8,822
Unrecognized liabilities as a component of net periodic benefit cost		-		-
Funded status	$	**(5,046)**	$	(8,822)
Accumulated benefit obligation	$	**24,655**	$	34,153

Years ended December 31,		**2022**		2021
Components of Net Periodic Benefit Costs:				
Service costs	$	**2,755**	$	2,794
Interest costs		**1,256**		1,115
Expected return on plan assets		**(1,415)**		(1,212)
Loss amortization		**176**		444
Prior service cost		**44**		44
Total net periodic benefit cost	$	**2,816**	$	3,185

(Amounts in Thousands)

Years ended December 31,		**2022**		2021
Amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost:				
Items not yet recognized as a component of net periodic cost – prior year	$	**5,896**	$	7,934
Net transition asset or obligation recognized		**-**		-
Net prior service cost or credit arising during the period		**-**		-
Net prior service cost recognized		**(44)**		(44)
Net (gain) loss arising during the period		**(2,855)**		(1,550)
Net gain recognized		**(176)**		(444)
Items not yet recognized as a component of net periodic cost – current year	$	**2,821**	$	5,896

Years ended December 31,		**2022**		2021
Amounts in unassigned funds (surplus) expected to be recognized in the next fiscal year as components of net periodic benefit cost:				
Amortization of net transition asset or obligation	$	**-**	$	-
Amortization of net prior service cost		**44**		44
Amortization of net loss	$	**-**	$	162

Years ended December 31,		**2022**		2021
Amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost:				
Net transition asset or obligation	$	**-**	$	-
Net prior service cost		**178**		223
Net loss	$	**2,643**	$	5,674

(Amounts in Thousands)

Pension Assumptions:

December 31,	**2022**	2021
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	**3.25%**	3.00%
Rate of compensation increase	**2.50%**	2.50%
Expected long-term rate of return of plan assets	**4.50%**	4.50%
Weighted-average assumptions used to determine projected benefit obligations:		
Weighted-average discount rate	**5.75%**	3.25%
Rate of compensation increase	**4.00%**	2.50%

The amount of accumulated benefit obligation for the defined benefit pension plan was approximately $24,655 and $34,153 as of December 31, 2022 and 2021, respectively.

Measurement Date

A measurement date of December 31, 2022 was used to determine the above.

Asset Allocation

The defined benefit pension plan asset allocation as of the measurement date presented as a percentage of total plan assets were as follows:

December 31,	**2022**	2021
Equity securities	**38.6%**	37.0%
Debt securities	**55.7%**	57.0%
Real estate	**4.8%**	5.2%
Other	**0.9%**	0.8%
	100.0%	100.0%

(Amounts in Thousands)

The investment policy of the Plan is to maximize the total return of the fund while maintaining a strong emphasis on preservation of capital. The total portfolio is expected to be less volatile than the market the vast majority of the time. The Plan assets are invested in a mix of equity and fixed income investments subject to target allocation ranges. The target allocation is to increase the percentage of fixed income investments depending on market conditions. Remaining funds not invested in the categories above are to be invested in short-term cash equivalents such as money market funds.

The long-term rate of return represents the expected average rate of return on the Plan assets based on the expected long-term asset allocation of the Plan. Several factors are considered, including historical market index returns, expectations of future returns in each asset classes, and the potential to outperform market index returns.

Future Payments

The following estimated future payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years ending December 31,		Amount
2023	$	868
2024		981
2025		1,114
2026		1,276
2027		1,423
2028 and thereafter		9,168

Planned Contributions

The Association expects to make contributions of $3,669 during 2023.

(Amounts in Thousands)

Fair value measurements of Plan assets as of December 31, 2022 and 2021:

	Fair Value Measurements at December 31, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ **185**	$ **-**	$ **-**	$ **185**
Large cap equity	**4,666**	**-**	**-**	**4,666**
Small cap equity	**711**	**-**	**-**	**711**
Mid cap equity	**1,595**	**-**	**-**	**1,595**
International equity	**4,573**	**-**	**-**	**4,573**
Realty fund	**2,680**	**-**	**-**	**2,680**
Fixed income	**-**	**7,924**	**-**	**7,924**
Limited partnerships	**556**	**-**	**-**	**556**
Total plan assets	$ **14,966**	$ **7,924**	$ **-**	$ **22,890**

	Fair Value Measurements at December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Cash	$ 135	$ -	$ -	$ 135
Large cap equity	6,619	-	-	6,619
Small cap equity	881	-	-	881
Mid cap equity	2,022	-	-	2,022
International equity	2,697	-	-	2,697
Realty fund	1,708	-	-	1,708
Fixed income	5,948	10,117	-	16,065
Total plan assets	$ 20,010	$ 10,117	$ -	$ 30,127

(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 $1,003 and $999 (before allocation to Texas FAIR Plan Association ("TFPA")) were made for the years ended December 31, 2022 and 2021, respectively. The Association's portion was approximately $695 and $693 for the years ended December 31, 2022 and 2021, respectively.

9. Lease Commitments

The Association leases office space under a non-cancellable operating lease agreement which expires in 2033. 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, 2022:

Years ending December 31,		Amount
2023	$	357
2024		880
2025		905
2026		930
2027 and thereafter		6,795
	$	9,867

Rental expense under the non-cancelable operating lease was approximately $1,415 and $1,497 for the years ended December 31, 2022 and 2021, respectively.

10. 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.

11. Service Contract with Texas Fair Plan Association

During 2002, the Association entered into a service contract with 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 2022 and 2021, the Association paid expenses for TFPA under its management contract and was reimbursed $13,202 and $13,186, respectively. As of December 31, 2022 and 2021, the Association incurred or paid expenses for which it has not been reimbursed of $1,215 and $1,159, respectively, on behalf of TFPA, and are included in other assets in the statutory statements of admitted assets, liabilities, surplus and other funds. This arrangement is subject to a written agreement which requires that balances be settled within 30 days.

12. Borrowed Money – Bonds Payable

The Texas Public Finance Authority (the "Authority" or the "Issuer") has issued the Bonds on behalf of the Association for the purposes of financing catastrophe loss 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 $0 and $177,000 principal balance was outstanding as of December 31, 2022 and 2021, respectively, and is included in borrowed money – bonds and interest payable in the statutory statements of admitted assets, liabilities, surplus and other funds. On December 7, 2021, the Association Board of Directors approved an early redemption of the remaining $177,000 of the Bonds and directed staff to request approval from the Commissioner of Insurance to redeem the outstanding Bonds prior to their scheduled maturity dates. The redemption was completed on May 9, 2022. In conjunction with the redemption, the Association obtained a short-term loan totaling $29,118. The Association repaid the short-term loan amount and interest in its entirety on July 21, 2022. The original Bonds bear interest from 5.25% to 8.25% with an effective interest rate of 8.03%. The Bonds were 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.

(Amounts in Thousands)

At December 31, 2022 and 2021, the Bonds had no unamortized premium or discount. Bond issuance costs are expensed as incurred.

Interest expense incurred on the Bonds is recorded as an investment expense and totaled $5,192 and $16,673 for the years ended December 31, 2022 and 2021, respectively. Interest of $12,493 and $18,744 was paid to bondholders for the years ended December 31, 2022 and 2021, respectively. Interest expense on the short-term loan totaled $296 for the year ended December 31, 2022.

Changes in borrowed money - bonds payable for the year ended December 31, 2022 is as follows:

Description	Bonds Outstanding January 1, 2022	Bonds Issued	Bonds Matured/Redeemed	Bonds Outstanding December 31, 2022
Bonds	$ **177,000**	$ **-**	$ **177,000**	$ **-**

Changes in borrowed money - bonds payable for the year ended December 31, 2021 is as follows:

Description	Bonds Outstanding January 1, 2021	Bonds Issued	Bonds Matured/Redeemed	Bonds Outstanding December 31, 2021
Bonds	$ 227,200	$ -	$ 50,200	$ 177,000

13. 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 is still in effect as of December 31, 2022. One private market insurer participated in the 2022-2023 and 2021-2022 programs. The novations occurred on March 1, 2023 and 2022, and consisted of 46 and 125 policies, respectively. Approximately 16,000 policies have been novated through December 31, 2022 since the inception of the program.

As of December 31, 2022 and 2021, funds held by company under reinsurance treaties was $0.

During 2022 and 2021, the Association recognized ceded written premiums of $0 as a result of the Assumption Program.

14. 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 2022. The line of credit agreement was entered into June 1, 2022 subsequent to the Association's Board of Directors approval on May 17, 2022. 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 0.475% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2023, however, the line of credit was terminated by the Association as of December 27, 2022 without penalty.

The Association obtained a $500,000 committed line of credit with two of its primary financial institutions during 2021. The line of credit agreement was entered into June 1, 2021 subsequent to the Association's Board of Directors approval on May 18, 2021. No amounts were drawn against the line of credit. Issuance fees for the line of credit were $500 and the Association paid the lenders a 0.475% commitment fee against the unused portion of the line of credit. The commitment was originally set to mature on May 31, 2022, however, the line of credit was terminated by the Association on December 27, 2021 without penalty.

15. 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 $83,800,000 and $65,800,000 of insurance exposure as of December 31, 2022 and 2021, respectively.

(Amounts in Thousands)

16. Nonadmitted Assets

Nonadmitted assets consisted of the following:

December 31,		2022		2021
Prepaid expenses and receivables	$	**1,636**	$	1,565
Member assessment receivable		**2,199**		2,199
Electronic data processing equipment and software		**13,050**		13,505
Furniture and equipment		**2,259**		242
Total nonadmitted assets	$	**19,144**	$	17,511

17. Fair Value Measurements

The following table reflects the fair values and admitted assets and liabilities that are financial instruments. The fair values are also categorized into the three-level fair value hierarchy. Cash and cash equivalents are the only financial instruments held by the Association. 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.

Fair Value Measurements at December 31, 2022 Using:

	Aggregate Fair Value	Net Asset Value	Admitted Assets	Level 1	Level 2	Level 3
Cash	$ 222,016	$ -	$ 222,016	$ 222,016	$ -	$ -
Cash equivalents*	-	261,854	261,854	-	-	-
	$ 222,016	$ 261,854	$ 483,870	$ 222,016	$ -	$ -

Fair Value Measurements at December 31, 2021 Using:

	Aggregate Fair Value	Net Asset Value	Admitted Assets	Level 1	Level 2	Level 3
Cash	$ 177,437	$ -	$ 177,437	$ 177,437	$ -	$ -
Cash equivalents*	69,002	247,388	316,390	69,002	-	-
	$ 246,439	$ 247,388	$ 493,827	$ 246,439	$ -	$ -

* In accordance with SSAP 100R, certain investments that were measured at NAV have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the line items presented in the statutory statements of admitted assets, liabilities, surplus and other funds.

18. Reconciliation with Annual Statement

There were no differences between the 2022 and 2021 annual statements as filed with the TDI and the 2022 and 2021 audited statutory financial statements.

19. Subsequent Events

The Association has evaluated subsequent events occurring after December 31, 2022, the date of the most recent statutory statements of admitted assets, liabilities, surplus, and other funds through April 27, 2023, the date the statutory financial statements were issued. The Association does not believe any subsequent events have occurred that would require further disclosure or adjustment to the statutory financial statements.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2022
(Amounts in Thousands)

Investment categories	Gross Investment Holdings * Amount	%	Admitted Assets as Reported in the Annual Statement ** Amount	%
Long- Term Bonds (Schedule D, Part 1):				
U.S. Governments	$ -	-	$ -	-
All other governments	-	-	-	-
U.S. states, territories and possessions, etc. guaranteed	-	-	-	-
U.S. political subdivisions of states, territories, and possessions, guaranteed	-	-	-	-
U.S. special revenue and special assessment obligations, etc. non-guaranteed	-	-	-	-
Industrial and miscellaneous	-	-	-	-
Hybrid securities	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
SVO identified funds	-	-	-	-
Unaffiliated bank loans	-	-	-	-
Total long-term bonds	-	-	-	-
Preferred stocks (Schedule D, Part 2, Section 1):				
Industrial and miscellaneous (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates	-	-	-	-
Total preferred stocks	-	-	-	-
Common stocks (Schedule D, Part 2, Section 2):				
Industrial and miscellaneous Publicly traded (Unaffiliated)	-	-	-	-
Industrial and miscellaneous Other (Unaffiliated)	-	-	-	-
Parent, subsidiaries and affiliates Publicly traded	-	-	-	-
Parent, subsidiaries and affiliates Other	-	-	-	-
Mutual funds	-	-	-	-
Unit investments trusts	-	-	-	-
Closed-end funds	-	-	-	-
Total common stocks	-	-	-	-
Mortgage loans (Schedule B):				
Farm mortgages	-	-	-	-
Residential mortgages	-	-	-	-
Commercial mortgages	-	-	-	-
Mezzanine real estate loans	-	-	-	-
Total mortgage loans	-	-	-	-
Real Estate (Schedule A):				
Properties occupied by company	-	-	-	-
Properties held for production of income	-	-	-	-
Properties held for sale	-	-	-	-
Total real estate	-	-	-	-

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Summary Investment Schedule
December 31, 2022
(Amounts in Thousands)

Investment categories		Gross Investment Holdings * Amount	%		Admitted Assets as Reported in the Annual Statement ** Amount	%
Cash, cash equivalents and short-term investments:						
Cash (Schedule E, Part 1)		222,016	45.88		222,016	45.88
Cash equivalents (Schedule E, Part 2)		261,854	54.12		261,854	54.12
Short-term investments (Schedule DA)		-	-		-	-
Total cash, cash equivalents and short-term investments		483,870	100.00		483,870	100.00
Contract loans		-	-		-	-
Derivatives (Schedule DB)		-	-		-	-
Other invested assets (Schedule BA)		-	-		-	-
Receivables for securities		-	-		-	-
Securities Lending (Schedule DL, Part 1)		-	-		-	-
Other invested assets (Page 2, Line 11)		-	-		-	-
Total invested assets	$	483,870	100.00	$	483,870	100.00

**Gross investment holdings as valued in compliance with the NAIC Accounting Procedures Manual.*

*** The Association has no securities lending reinvested collateral at December 31, 2022.*

See accompanying independent auditors' report on supplemental information.

Texas Windstorm Insurance Association

Supplemental Investment Risk Interrogatories

December 31, 2022
(Amounts in Thousands)

1) Reporting entity's total admitted assets as reported in the accompanying financial statements. $ 510,852

Questions 2 through 19 are not applicable.

20) Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-End		At End of Each Quarter		
	Amount	Percentage of Total Admitted Assets	1st Qtr	2nd Qtr	3rd Qtr
Reverse repurchase agreements	$ -	-	$ 78,961	$ -	$ -

Questions 21 through 23 are not applicable.

See accompanying independent auditors' report on supplemental information.

7.1 Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)? YES[ ] NO [X]

7.2 If yes, indicate the number of reinsurance contracts containing such provisions. N/A

7.3 If yes, does the amount of reinsurance credit taken reflect the reduction in quota share coverage caused by any applicable limiting provision(s)? YES[ ] N/A [X]

9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year–end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

(a) A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;

(b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity; or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;

(c) Aggregate stop loss reinsurance coverage;

(d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;

(e) A provision permitting reporting of losses, or payment of losses, less frequently than a quarterly basis (unless there is no activity during the period); or

(f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity. YES[ ] NO [X]

See accompanying independent auditors' report on supplemental information.

9.2 Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:

(a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or

(b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract? YES[ ] NO [X]

9.3 If yes to 9.1 or 9.2, please provide the following information in the Reinsurance Summary Supplemental Filing for General Interrogatory 9:

N/A

9.4 Except for transactions meeting the requirements of paragraph 37 of SSAP No. 62R, Property and Casualty Reinsurance, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:

(a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles ("SAP") and as a deposit under generally accepted accounting principles ("GAAP"); or

(b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP? YES [ ] NO [X]

9.5 If yes to 9.4, explain in the Reinsurance Summary Supplemental Filing for General Interrogatory 9 (Section D) why the contract(s) is treated differently for GAAP and SAP. N/A

See accompanying independent auditors' report on supplemental information.