

Texas Association of School Boards Risk Management Fund

Financial Statements and
Supplementary Information
August 31, 2025 and 2024



TEXAS ASSOCIATION OF SCHOOL BOARDS RISK MANAGEMENT FUND

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Independent Auditor's Report

Board of Trustees
Texas Association of School Boards Risk Management Fund

Opinion

We have audited the financial statements of Texas Association of School Boards Risk Management Fund (the Fund), as of and for the years ended August 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Fund, as of August 31, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 Fund'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the ten-year claims development information, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The reconciliations of unpaid claims and claims adjustment expense liability by type of contract are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the reconciliations of unpaid claims and claims adjustment expense liability by type of contract are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

RSM US LLP

Minneapolis, Minnesota
November 6, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

Texas Association of School Boards Risk Management Fund

Year Ended August 31, 2025 (Unaudited)

The Texas Association of School Boards Risk Management Fund (the "Fund") herein sets forth a narrative overview and analysis of its financial activities for the fiscal year ended August 31, 2025.

Overview of the Financial Statements

The Fund's financial statements consist of three components: 1) financial statements, 2) notes to the financial statements, and 3) supplementary information. The financial statements present the results of operations from the following Fund programs: Workers' Compensation, Auto, Property, Liability, Cyber and Unemployment Compensation.

Financial Highlights

Assets exceeded Fund liabilities at August 31, 2025, by \$244.6 million and no amounts were designated as restricted as of the end of the year.

The Statement of Net Position presents the Fund's net assets (total assets less total liabilities) as Net Position (Members' Equity). The Fund's governing Board of Trustees elected not to use Members' Equity to support operations for the year. Net Position increased by \$8.6 million during the 2024-2025 fiscal year. The increase to \$244.6 million was primarily due to increases in gross contributions earned and investment returns in our investment portfolio due to favorable market conditions.

Although, net incurred losses increased from the prior year, increases in total contributions along with strong investment income helped to offset the net incurred losses, which has enabled the Fund to continue to be a steady partner for its members.

Fund Accounting and Financial Statements

The Fund is a public entity risk pool created under the Texas Interlocal Cooperation Act and all of the Fund's programs are accounted for as an enterprise fund within the Governmental Accounting Standards Board (GASB) framework.

The Fund's reserves include case-based reserves, incurred but not reported (IBNR) claims, and unallocated loss adjustment expenses (ULAE) for Workers' Compensation, Auto, Property, Cyber, and Liability programs. The Fund also carries reserves for certain claims where the Fund provided a layer of stop-loss coverage to self-funded workers' compensation members from September 1, 1988, to August 31, 1992. Reserves are established by management in consultation with the Fund's independent consulting actuary.

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

The Statement of Revenues, Expenses and Changes in Net Position presents the financial results of the Fund. This statement presents information showing how the Fund's Net Position changed during the most recent fiscal year. The Fund utilizes enterprise fund accounting and thus uses the accrual method of accounting. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for

some items that will result in cash flows in future fiscal periods (e.g. loss and loss adjustment expenses, accrued investment income and reinsurance premiums payable).

The Statement of Cash Flows presents the sources and uses of cash from operating activities, financing activities, and investing activities. This statement ends with the cash in the Statement of Net Position. A reconciliation of operating income to cash provided by the operating activities is also presented. The basic financial statements begin on page 10.

Notes to the Financial Statements

The notes provide additional information that is integral to a full understanding of the financial information presented in the financial statements. The notes to the financial statements begin on page 13.

Supplemental Information

In addition to the basic financial statements and accompanying notes, this financial report also presents certain required supplementary information regarding the Fund's ten-year claims development history and reconciliation. Setting member contribution rates today to cover the assumed risk of possible future loss occurrences are largely guided by claims development. Analysis of trends in claims development indicates whether losses are increasing, decreasing, or remain constant. Supplementary information is located on pages 24-28.

Financial Analysis for the Fund

The Statements of Net Position – As of August 31, 2025, 2024, and 2023

Comparative Condensed Statements of Net Position As of August 31, 2025, 2024, and 2023

	2025	2024	2023
Assets:			
Cash and investments	\$ 493,084,838	\$ 396,755,143	\$ 362,807,575
Other current assets	28,981,821	48,263,803	33,718,345
Long-term assets	<u>125,229</u>	<u>115,766</u>	<u>111,569</u>
Total Assets	<u><u>\$ 522,191,888</u></u>	<u><u>\$ 445,134,712</u></u>	<u><u>\$ 396,637,489</u></u>
Liabilities and equity:			
Current liabilities	\$173,718,729	\$ 128,508,433	\$ 111,894,725
Long-term liabilities	<u>103,914,107</u>	<u>80,627,566</u>	<u>92,245,972</u>
Total Liabilities	<u><u>277,632,836</u></u>	<u><u>209,135,999</u></u>	<u><u>204,140,697</u></u>
Net Position:			
Members' Equity (Unrestricted)	<u>244,559,052</u>	<u>235,998,713</u>	<u>192,496,792</u>
Total Liabilities and Net Position	<u><u>\$ 522,191,888</u></u>	<u><u>\$ 445,134,712</u></u>	<u><u>\$ 396,637,489</u></u>

Cash and Investments

The Fund carried cash, cash equivalents and investments of \$493.1 million, \$396.8 million, and \$362.8 million on August 31, 2025, 2024, and 2023, respectively. The Fund's investments are made in accordance with the Fund's Investment Policy, which is reviewed and approved annually by the Fund's Board of Trustees. The Fund's investments consist primarily of corporate and government bonds, mortgage-backed securities, and equity mutual funds. The increases during 2024-2025 and 2023-2024 fiscal years is primarily due to increased contribution revenue and strong unrealized gains in the investment portfolio due to favorable market conditions, which offset net incurred losses.

Other Current Assets

Other current assets consist primarily of contributions receivable, stop loss coverage receivable, and accrued interest receivable. The main fluctuation during 2024-2025 is due to collections on stop loss coverage receivables of \$19.3 million. This occurs when reinsurers reimburse the Fund for their portion of paid losses. The main fluctuation during 2023-2024 is due to the increase of stop loss coverage receivables of \$13.0

million. The increase is a result of paid losses exceeding the Fund's specific retention on various weather-related occurrences and the excess amounts being ceded to reinsurers.

Current Liabilities

Current liabilities primarily consist of the current portion of the reserves for losses and LAE, prepaid contributions, and unearned contributions-net of prepaid stop loss premiums. During 2024-2025, there was an increase of \$35.2 million in the current portion of reserves as a result of significant incurred losses in the property program due to multiple severe weather events. Additionally, unearned contributions-net of prepaid stop loss premiums increased \$10.7 million as a result of contribution increases. The primary driver of the fluctuation during 2023-2024 is an increase of \$13.9 million in unearned contributions-net of prepaid stop loss premiums as a result of contribution increases during the year.

Reserves

Reserves for losses and loss adjustment expenses were approximately \$211.2 million, \$152.7 million, and \$166.1 million at August 31, 2025, 2024, and 2023, respectively. During 2024-2025, actuarial projected reserves increased \$58.5 million from the prior year mainly due to the property program as a result of significant weather claims combined with higher reinsurance retentions and increases to the unallocated loss adjustment expense reserves. During 2023-2024, actuarial projected reserves decreased by approximately \$13.4 million. The majority of this decrease is due to decreased claim losses in the property program. During 2022-2023, actuarial projected reserves increased by \$53.3 million due to increased claim losses in the property and auto programs.

The Fund discounts its workers' compensation reserves to reflect an estimate of anticipated investment earnings on accumulated contributions during the payout period of the reserves. The Fund discounts reserves due to the relatively low variability in the amount and timing of future loss payments. Accordingly, reserves are presented at net present value using a discount rate of 4% as of August 31, 2025 and 3% as of August 31, 2024 and 2023, respectively. The rate increased in the current year due to higher investment income in recent years. The reserve discount as of August 31, 2025, 2024, and 2023, was \$10.0 million, \$10.1 million, and \$10.1, respectively million.

Net Position – Members' Equity

Net Position (Members' Equity) increased by \$8.6 million and \$43.5 million during 2024-2025 and 2023-2024 fiscal years, respectively, and decreased by approximately \$40.8 million during 2022-2023. Increased contribution revenue and solid unrealized gains in the investment portfolio are the primary drivers for the increase in net position for 2024-2025 and 2023-2024 fiscal years. Significant incurred losses in the property program due to multiple weather events during the spring storm season is the primary driver for the decrease in net position for 2022-2023.

As of August 31, 2025, there were no amounts of Net Position that the Fund's Board of Trustees had declared restricted as all such funds were determined necessary for operations of the Fund. At the end of the current fiscal year, Net Position totaled \$244.6 million.

The Statements of Revenue, Expenses and Changes in Net Position – Fiscal years ended August 31, 2025, 2024, and 2023

**Comparative Condensed Statements of
Revenues, Expenses and Changes in Net Position
For the Years Ended August 31, 2025, 2024, and 2023**

	2025	2024	2023
Operating revenues:			
Gross contributions earned	\$ 249,721,097	\$ 212,232,252	\$ 179,256,207
Other revenue	2,887	9,677	983,398
Stop-loss and reinsurance premiums	<u>(57,031,166)</u>	<u>(58,315,463)</u>	<u>(49,376,278)</u>
Net operating revenues	192,692,818	153,926,466	130,863,327
Non-operating revenues:			
Investment income – net of expenses	19,132,232	14,570,330	11,569,661
Realized and change in unrealized gains (losses) from investments	<u>12,824,321</u>	<u>26,753,356</u>	<u>773,030</u>
Net non-operating revenue	<u>31,956,553</u>	<u>41,323,686</u>	<u>12,342,691</u>
Total revenues	<u>224,649,371</u>	<u>195,250,152</u>	<u>143,206,018</u>
Operating expenses:			
Net incurred losses	162,472,392	101,990,048	137,214,125
Administrative and other expenses	<u>53,616,640</u>	<u>49,758,183</u>	<u>46,755,639</u>
Total operating expenses	<u>216,089,032</u>	<u>151,748,231</u>	<u>183,969,764</u>
Change in net position	8,560,339	43,501,921	(40,763,746)
Members' Equity -- Beginning of year	<u>235,998,713</u>	<u>192,496,792</u>	<u>233,260,538</u>
Members' Equity -- End of year	<u><u>\$ 244,559,052</u></u>	<u><u>\$ 235,998,713</u></u>	<u><u>\$ 192,496,792</u></u>

Contributions

Member contributions are the Fund's main source of revenue and are recorded upon execution of the Interlocal Participation Agreement (IPA) and recognized as earned. These documents between the Fund and its members set forth the coverage terms, agreement period, required contribution, and the obligations of the parties.

For the fiscal years ended August 31, 2025, 2024, and 2023, the Fund reported earned contributions and administrative-services-only (ASO) fees of \$249.7 million, \$212.2 million, and \$179.3 million, respectively.

Total contributions increased in 2025 as a result of a combination of increases in member exposures and contribution rates.

Net operating revenue is calculated using program revenue, other revenue, and stop-loss premiums expensed during the fiscal year. For the fiscal years ended August 31, 2025, 2024, and 2023, the Fund reported net operating revenue of \$192.7 million, \$153.9 million, and \$130.9 million, respectively. For 2025 and 2024, net operating revenue increased primarily due to the increase in contributions for the Fund's programs.

The Fund continues to operate in a challenging market environment, yet remains the largest provider of risk management services and coverage to Texas public schools, as well as one of the largest risk pools in the nation. Amid the ongoing financial challenges facing school districts in 2024-25, the Fund's strong legacy of offering quality coverage and service led to stable membership across its programs. This year, the Fund retained over 99% of its members, an impressive retention rate compared to most risk pools and traditional insurance carriers. Through the Fund's relationship with the Texas Association of School Boards, Inc. (TASB), its administrator's staff is uniquely positioned to understand the individual needs of current and prospective members. This understanding, combined with disciplined underwriting and management of exposure growth, enables the Fund to maintain membership at a stable and predictable rate. Contributions for the Fund's programs, except for cyber, liability, and unemployment compensation which were level, were expected to increase 12.8% due to exposure increases and rate changes. The actual contribution increase was over 17.7% primarily because of higher-than-estimated exposures in the property and auto programs.

Investment Income, realized and change in unrealized gains (losses) from investments

Investment income contributes significantly to the Fund's overall financial strategy. Interest and dividend earnings on fixed investment securities compose a large part of investment income. The Fund marks to market all investments. The Fund reports realized and unrealized gains or losses from investments as a component of the results from operations. The Fund earned \$19.1 million, \$14.6 million, and \$11.6 million in investment income (net of fees) for the years ended August 31, 2025, 2024, and 2023, respectively. For the years ended August 31, 2025, 2024, and 2023, the Fund recognized an unrealized net gain of \$18,743,871, \$36,264,066, and \$144,478, respectively, on the investment portfolio. Net non-operating revenue includes the change in unrealized gains or losses, realized gains or losses, and interest and dividend earnings net of fees.

Operating Expenses

As of August 31, 2025, 2024, and 2023, total expenses were \$216.1 million, \$151.7 million, and \$184.0 million, respectively. The increase during 2024-2025 is a result of increases in incurred losses for the property program and increases to the unallocated loss adjustment reserves. The decrease during 2023-2024 is a result of changes in net incurred losses, specifically related to the property program.

The Fund has no staff. Instead, it contracts with TASB for administration and management of its programs, and it reports this expense as Program Administrative Fees. TASB performs marketing, underwriting, claims administration, loss prevention, financial operations, and other administrative and operational activities on behalf of the Fund. The Fund has a Service Agreement with TASB and pays TASB an administrative fee for TASB's service delivery responsibilities as outlined in the Service Agreement. The administrative fee is approved annually by the Fund's Board of Trustees and reimburses TASB's actual costs incurred for administration of the Fund's programs. The Fund incurred TASB administrative fees of \$33.8 million, \$32.5 million, and \$30.7 million as of August 31, 2025, 2024, and 2023, respectively.

In addition to the Service Agreement for administration of the Fund's program, the Fund and TASB have entered into an Affinity and License Agreement. The Agreement recognizes the role that TASB played in

creation of the Fund and allows the Fund to use TASB's name and logo. The sponsorship and license fee was \$2.2 million as of August 31, 2025, 2024 and 2023, and is reported as sponsorship fees.

TEXAS ASSOCIATION OF SCHOOL BOARDS RISK MANAGEMENT FUND

STATEMENTS OF NET POSITION AUGUST 31, 2025 AND 2024

	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,079,651	\$ 25,129,024
Equity mutual funds	87,550,024	74,194,594
Fixed income securities	11,177,497	15,146,987
Contributions receivable	13,782,511	13,920,861
Stop-loss coverage receivable	12,100,886	31,474,793
Accrued interest receivable	2,298,089	1,873,493
Prepaid expenses and other assets	800,335	994,656
Total current assets	247,788,993	162,734,408
Non-current assets:		
Fixed income securities	274,277,666	282,284,538
Other assets	125,229	115,766
Total non-current assets	274,402,895	282,400,304
TOTAL ASSETS	\$ 522,191,888	\$ 445,134,712
LIABILITIES AND NET POSITION		
Current liabilities:		
Reserve for losses and LAE at estimated net present value	\$ 107,306,655	\$ 72,109,772
Unemployment compensation claims payable	1,123,419	1,248,900
Unearned contributions - net of prepaid stop-loss premiums	43,882,569	33,160,926
Checks payable on losses	4,233,374	4,044,946
Investment securities purchased	-	953,298
Accrued expenses and other liabilities	17,172,712	16,990,591
Total current liabilities	173,718,729	128,508,433
Non-current liabilities:		
Reserve for losses and LAE at estimated net present value	103,914,107	80,627,566
Total non-current liabilities	103,914,107	80,627,566
Total liabilities	277,632,836	209,135,999
Net Position:		
Members' Equity (Unrestricted)	244,559,052	235,998,713
TOTAL LIABILITIES AND NET POSITION	\$ 522,191,888	\$ 445,134,712

See notes to financial statements.

TEXAS ASSOCIATION OF SCHOOL BOARDS RISK MANAGEMENT FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED AUGUST 31, 2025 AND 2024

	2025	2024
OPERATING REVENUES:		
Member contributions	\$ 246,031,044	\$ 208,942,278
Administrative-service-only fees	3,690,053	3,289,974
Other revenue	2,887	9,677
Stop-loss and reinsurance premiums	<u>(57,031,166)</u>	<u>(58,315,463)</u>
Net operating revenue	<u>192,692,818</u>	<u>153,926,466</u>
OPERATING EXPENSES:		
Claims expense	170,956,549	130,644,163
Reinsurance recoveries	<u>(8,484,157)</u>	<u>(28,654,115)</u>
Net incurred losses	162,472,392	101,990,048
Unemployment compensation claim reimbursements	6,636,670	5,725,375
Program administrative fees	33,782,030	32,507,914
General and administrative	10,680,888	8,945,765
Contract service fees	3,570	68,745
Sponsorship and royalties	<u>2,513,482</u>	<u>2,510,384</u>
Total operating expenses	<u>216,089,032</u>	<u>151,748,231</u>
OPERATING (LOSS) INCOME	<u>(23,396,214)</u>	<u>2,178,235</u>
NON-OPERATING REVENUES:		
Investment income — Net of expenses	19,132,232	14,570,330
Realized and change in unrealized gains from investments	<u>12,824,321</u>	<u>26,753,356</u>
NON-OPERATING REVENUE, NET	<u>31,956,553</u>	<u>41,323,686</u>
CHANGE IN NET POSITION	8,560,339	43,501,921
NET POSITION:		
Members' Equity (Unrestricted) Beginning of year	<u>235,998,713</u>	<u>192,496,792</u>
Members' Equity (Unrestricted) End of year	<u>\$ 244,559,052</u>	<u>\$ 235,998,713</u>

See notes to financial statements.

**TEXAS ASSOCIATION OF SCHOOL BOARDS
RISK MANAGEMENT FUND**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from members	\$ 260,581,090	\$ 225,090,608
Cash from reinsurers	47,007,391	35,400,776
Claims paid, including unemployment compensation claims	(138,196,176)	(169,593,469)
Cash paid to reinsurers	(56,846,308)	(58,720,716)
Cash paid to vendors and TASB	(44,466,488)	(41,522,424)
Cash paid in royalties	(2,513,482)	(2,510,384)
Cash from other revenue	185,008	3,663,778
Net cash provided by (used in) operating activities	65,751,035	(8,191,831)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(196,020,338)	(129,361,682)
Proceeds from sales and maturities of investments	206,512,294	127,294,438
Investment income	18,707,636	14,432,746
Net cash provided by investing activities	29,199,592	12,365,502
NET INCREASE IN CASH AND CASH EQUIVALENTS	94,950,627	4,173,671
CASH AND CASH EQUIVALENTS:		
Beginning of year	25,129,024	20,955,353
End of year	120,079,651	25,129,024
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating (loss) income	(23,396,214)	2,178,235
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:		
Decrease (increase) in contributions receivable	138,350	(993,450)
Decrease (increase) in stop-loss coverage receivable	19,373,907	(13,013,368)
Decrease (increase) in prepaid expenses and other assets	184,858	(405,253)
Increase in unearned contributions, net of stop-loss premiums	10,721,643	13,851,806
Increase (decrease) in checks payable on losses	188,428	(39,913)
Increase (decrease) in reserve for losses and loss adjustment expenses at estimated net present value	58,483,424	(13,398,787)
Decrease in unemployment compensation claims payable	(125,482)	(25,202)
Increase in accrued expenses and other liabilities	182,121	3,654,101
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 65,751,035	\$ (8,191,831)

See notes to financial statements.

TEXAS ASSOCIATION OF SCHOOL BOARDS RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED AUGUST 31, 2025 AND 2024

1. GENERAL STATEMENT

The Texas Association of School Boards Risk Management Fund (the “Fund”) is a public entity risk-sharing pool composed of six separate fund programs, which were established by members of the Texas Association of School Boards, Inc. (TASB). The Fund is a separate legal entity from TASB. The workers’ compensation and unemployment compensation programs were created in 1974 and 1977, respectively. The auto, property, and liability programs were created in 1981. These individual programs were merged in April 1997 with the TASB Workers’ Compensation Self-Insurance Fund and renamed the Fund. Each program was created in accordance with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates in accordance with the appropriate rules, regulations, and laws of the state of Texas.

The general objective of all programs includes (a) formulating, developing, and administering services for its membership; (b) obtaining lower costs for workers’ compensation, auto, property, cyber, and liability coverage; and (c) developing a comprehensive safety and loss control program. Members of the Fund participate in the Fund through Interlocal Participation Agreements (IPA). The Fund operates as a risk-sharing pool by members choosing to share their risk exposures with other members of the Fund or, in the case of the workers’ compensation or unemployment compensation programs, participate as administrative-services-only (ASO) members whereby they fund their own claims and pay the Fund for administrative and loss control services. Approximately 1,020 school districts, education service centers, cooperatives, and community colleges participate in one or more of the Fund’s programs.

The Fund is composed of six programs: Workers’ Compensation, Auto, Liability, Cyber, Property and Unemployment Compensation programs, which have been combined in the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Income Taxes — The Fund is exempt from federal income tax under Section 115 of the Internal Revenue Code. Accordingly, the accompanying financial statements do not include a provision or a liability for federal income taxes.

Member Contributions — Contributions receivable is established as of the coverage date for the full annual contribution, net of deductible credits. Such contributions are earned on a pro-rata basis over a 12-month period.

The Fund's contributions are developed annually with assistance from the Fund's actuary and are based on projected claims and expense costs. The funding methodology utilized by the Fund is approved annually by the Fund's Board of Trustees.

The Fund receives prepaid contributions for policies that are not in force at year-end. The amount of prepaid contributions at August 31, 2025 and 2024 totaled \$15,953,419 and \$15,771,767, respectively and are recorded within accrued expenses and other liabilities on the statements of net position.

Contribution Deficiency — A contribution deficiency should be recognized when the sum of expected claim costs, including incurred but not reported claims, and all expected claim adjustment expenses exceeds related unearned contributions. When determining the existence or absence of a contribution deficiency, the Fund opted to use the discounting method for the investment income approach to calculating a contribution deficiency reserve and does not consider investment income in its calculation. The Fund also analyzed the contribution deficiency reserve by program. On August 31, 2025 the contribution deficiency reserve totaled \$234,320 for the Auto program only. On August 31, 2024, a contribution deficiency for the Fund did not exist for any of its programs.

Cash and Cash Equivalents — For purposes of financial statement presentation, the Fund considers cash, money market mutual funds, and debt securities with original maturities of three months or less at date of purchase as cash and cash equivalents.

Estimates — The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and those amounts could be significant.

Investments — Investments are carried at fair value. All investment income and changes in the fair value of investments are reported as non-operating revenue in the statements of revenues, expenses and changes in net position. Changes in the fair value of investments include both realized and unrealized gains and losses on investments.

Unemployment Compensation Claims Payable and Checks Payable on Losses — The unemployment compensation claims payable is reported separately on the statement of net position from checks payable on losses. Checks payable on losses correspond to claim checks outstanding from the workers' compensation, auto, liability, cyber, and property programs. Unemployment compensation claims payable represent the July and August claims liability due to the Texas Workforce Commission (TWC) on behalf of unemployment program members.

Unemployment compensation claim reimbursements are expensed as incurred for the unemployment compensation program. These expenses are shown separately from losses paid in other programs on the statements of revenues, expenses and changes in net position. However, revenue is included in member contributions and administrative-services-only fees and totaled \$12,691,507 and \$13,200,388 for the years ended August 31, 2025 and 2024, respectively.

Revenues and Expenses — The Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Sponsorship and royalties represent fees paid to TASB for the use of its name and other intellectual property. Royalties are also paid to the Texas Association of School Administrators (TASA) for its endorsement.

Net Position — Net position (Members' Equity) is unrestricted. The Fund refers to this balance internally as Members' Equity.

Reserve for Losses and Loss Adjustment Expenses — Reserve for losses and loss adjustment expenses (LAE) is a total of case estimates for losses on claims reported, estimates of losses incurred but not reported at year-end, and an estimate of unallocated loss adjustment expense (ULAE), less amounts expected to be ceded to reinsurers.

The Fund discounts reserves for the workers' compensation program only. Total undiscounted reserves (i.e., case-basis reserves plus incurred but not reported (IBNR) reserves) for all programs were \$221,213,477 and \$162,809,321 on August 31, 2025 and 2024, respectively. Total net discounted reserves (i.e., case-basis reserves plus IBNR reserves) on August 31, 2025 and 2024, totaled \$211,220,762 and \$152,737,338, respectively.

The estimates of reserves are also subject to the effects of the nature of the risks underwritten, the inherent difficulty in estimating the ultimate costs of fully developed claims and trends in loss severity and frequency. Specifically, workers' compensation reserves are subject to state legislation and medical inflation. For these reasons, the ultimate amount of losses and related loss adjustment expenses may vary significantly from the estimated reserves recorded in the financial statements. Although considerable variability is inherent in such estimates, management records the reserves based on actuarial valuations and believes that the reserve for losses and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

Stop-Loss (Reinsurance) – Prospective reinsurance premiums, losses, and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

In the ordinary course of business, the Fund has reinsured portions of its coverages to limit the amounts of potential losses to the Fund. Reinsurance is ceded on an excess of loss basis. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

Amounts receivable from reinsurers that relate to paid claim losses and loss adjustment expenses are classified as assets and as a reduction to claims expenses incurred. Estimated amounts recoverable from reinsurers that relate to unpaid claim losses and loss adjustment expenses are recorded as a reduction of reserve for losses liabilities and claims expenses incurred. Reinsurance recoveries on claims are netted against related claims and claims adjustment expenses incurred.

Subsequent Events – The Fund has evaluated subsequent events for disclosure and recognition through November 6, 2025, the date on which these financial statements were available to be issued, and all events identified have been reflected within these financial statements.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Under provisions of the Fund's investment policy and guidelines, the Fund may invest in the following types of instruments:

- a. Obligations of the U.S. government or its agencies and instrumentalities

- b. Dollar-denominated fixed-income securities of U.S. and foreign issuers including corporations and quasi-government entities
- c. U.S. Agency pass-through and collateralized mortgage obligations
- d. Non-Agency residential mortgage securities
- e. Commercial mortgage-backed securities
- f. Asset-backed securities
- g. Global and international bond funds
- h. U.S. and International equity funds
- i. Dollar-denominated money market instruments including, but not limited to, certificates of deposit, commercial paper, bankers' acceptances, time deposits, repurchase and reverse-repurchase agreements, floating-rate instruments, U.S. money market funds, and short-term bank investment funds

The investment portfolio is diversified to reduce the risk of loss of investment income from over-concentration of assets. Pursuant to the Fund's Investment Policy, the Fund strives to maintain a portfolio mix consisting of 70% investment-grade fixed income securities, 12.5% high-yield securities, and 17.5% equity funds. The Fund does not intend to hold all securities until maturity. Securities are reported on the statement of net position at fair value, and temporary changes in the fair value of the securities are recognized as unrealized gains and losses and reported as a component of non-operating revenue. Recorded fair values are based upon quoted prices in actively traded markets and quotes from pricing services/brokers. For the years ended August 31, 2025 and 2024, the Fund recognized an unrealized net gain of \$18,743,871 and \$36,264,066, respectively, on the investment portfolio.

The original cost and estimated fair values of instruments in the Fund's investment portfolio are reflected below:

	Original Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
August 31, 2025:				
U.S. government obligations	\$ 46,203,223	\$ 1,120,068	\$ (18,365)	\$ 47,304,926
U.S. government agency obligations	2,746,638	59,049	(189,815)	2,615,872
Corporate debt securities	107,099,437	3,162,715	(227,768)	110,034,384
Mortgage-backed securities	124,554,363	1,553,481	(607,863)	125,499,981
Equity mutual funds	<u>54,364,373</u>	<u>33,185,651</u>	<u>-</u>	<u>87,550,024</u>
	<u>\$ 334,968,034</u>	<u>\$ 39,080,964</u>	<u>\$ (1,043,811)</u>	<u>\$ 373,005,187</u>
August 31, 2024:				
U.S. government obligations	\$ 65,557,100	\$ 618,521	\$ (1,551,922)	\$ 64,623,699
U.S. government agency obligations	5,309,128	126,390	(578,194)	4,857,324
Corporate debt securities	118,555,456	2,088,727	(2,855,188)	117,788,995
Mortgage-backed securities	115,817,457	1,168,134	(6,824,084)	110,161,507
Equity mutual funds	<u>47,082,565</u>	<u>27,112,029</u>	<u>-</u>	<u>74,194,594</u>
	<u>\$ 352,321,706</u>	<u>\$ 31,113,801</u>	<u>\$ (11,809,388)</u>	<u>\$ 371,626,119</u>

Deposits — Demand deposits at August 31, 2025 and 2024 are \$475,842 and \$608,743, respectively. At August 31, 2025 and 2024, \$119,603,809 and \$24,520,281, respectively, is held in money market accounts, invested with Dreyfus or held by Principal Custody Solutions, the Fund's investment custodian, to invest by the Fund's investment manager and are not covered by depository insurance.

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

Custodial Credit Risk — Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the depositor-government's name.

Demand deposits as of August 31, 2025 and 2024, are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Fund is not subject to the Public Funds Investment Act or the Public Funds Collateral Act and is therefore not eligible to receive collateralization of money in depository institutions. Deposits not covered by depository insurance at August 31, 2025 and 2024 are \$225,842 and \$358,743, respectively.

Investments are exposed to custodial credit risk if the securities are uninsured or not registered in the name of the Fund, and are held by either the counterparty, or the counterparty's trust department or agent but not in the Fund's name. The Fund utilizes the services of external investment portfolio managers. All of the Fund's investments are registered and held in the Fund's name at August 31, 2025 and 2024, and are not, therefore, exposed to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

The fair value of investments at August 31, 2025 and 2024 are shown below by contractual maturity using the segmented time distribution method. Investments are classified as current or noncurrent consistent with their contractual maturities. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations without call or prepayment penalties.

	Estimated Fair Value	
	August 31, 2025	August 31, 2024
Due in one year or less:		
Corporate debt securities	\$ 3,668,722	\$ 3,568,510
U.S. government obligations	<u>7,508,775</u>	<u>11,578,477</u>
Total due in one year or less	<u>11,177,497</u>	<u>15,146,987</u>
Due after one year through five years:		
U.S. government obligations	25,506,305	35,311,910
Mortgage-backed securities	1,047,256	1,654,343
Corporate debt securities	<u>26,723,107</u>	<u>67,144,769</u>
Total due after one year through five years	<u>53,276,668</u>	<u>104,111,022</u>
Due after five years:		
U.S. government obligations	14,289,846	17,733,312
U.S. government agency obligations	2,615,872	4,857,324
Mortgage-backed securities	124,452,725	108,507,164
Corporate debt securities	<u>79,642,555</u>	<u>47,075,716</u>
Total due after five years	<u>221,000,998</u>	<u>178,173,516</u>
Total fixed income securities	<u>\$ 285,455,163</u>	<u>\$ 297,431,525</u>

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

developments. Credit risk is measured by a nationally recognized credit rating agency. U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following table shows the credit ratings as of August 31, 2025 and 2024, for each investment type.

	August 31, 2025		August 31, 2024	
	Fair Value	S&P Rating	Fair Value	S&P Rating
U.S. government obligations	\$ 47,304,926	NA	\$ 64,623,699	NA
U.S. government agency obligations	2,615,872	AAA - A-	4,857,324	AAA - A-
Corporate debt securities	45,248,077	AA+ - A-	51,494,358	AA+ - A-
Corporate debt securities	61,970,273	BBB+ - B-	63,321,742	BBB+ - B-
Corporate debt securities	2,816,034	NA	2,972,895	NA
Mortgage-backed securities	18,879,771	AAA - A-	14,700,176	AAA - A-
Mortgage-backed securities	1,132,866	BBB+ - B-	658,983	BBB+ - B-
Mortgage-backed securities	<u>105,487,344</u>	NA	<u>94,802,348</u>	NA
	<u>\$ 285,455,163</u>		<u>\$ 297,431,525</u>	

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

As of August 31, 2025 and 2024, there were no investments in issuers, excluding mutual funds and U.S. government obligations, that represent 5% or more of the total investments.

Fair Value Measurements – The Fund categorizes its fair value measurements within the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into broad levels as follows:

Level 1 – Valuation is based upon quoted prices in active markets for identical securities

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Valuation is based upon significant unobservable inputs (including the Fund's own assumptions determining the fair value of investments).

The fair values of investments are measured using quoted market prices or dealer quotations, when available. When quoted market prices are not available, fair value is measured using quoted market prices for similar securities. The asset's classification within the fair value hierarchy is based on using the lowest level of input that is significant to the fair value measurement. The valuation techniques used by the Fund maximize the use of observable inputs and minimize the use of unobservable inputs. There were no transfers between fair value levels during the years ended August 31, 2025 and 2024.

The following table sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of August 31, 2025 and 2024:

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
August 31, 2025:				
U.S. government obligations	\$ 47,304,926	\$ -	\$ -	\$ 47,304,926
U.S. government agency obligations	-	2,615,872	-	2,615,872
Corporate debt securities	-	110,034,384	-	110,034,384
Mortgage-backed securities	-	125,499,981	-	125,499,981
Equity mutual funds	87,550,024	-	-	87,550,024
	<u>\$ 134,854,950</u>	<u>\$ 238,150,237</u>	<u>\$ -</u>	<u>\$ 373,005,187</u>
August 31, 2024:				
U.S. government obligations	\$ 64,623,699	\$ -	\$ -	\$ 64,623,699
U.S. government agency obligations	-	4,857,324	-	4,857,324
Corporate debt securities	-	117,788,995	-	117,788,995
Mortgage-backed securities	-	110,161,507	-	110,161,507
Equity mutual funds	74,194,594	-	-	74,194,594
	<u>\$ 138,818,293</u>	<u>\$ 232,807,826</u>	<u>\$ -</u>	<u>\$ 371,626,119</u>

Investments in U.S. Treasury securities and mutual fund investments were recorded using Level 1 fair values based on observable quoted market prices from national security exchanges.

Prices for government agency, municipal, corporate, mortgage backed, and asset backed securities of the Fund are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, and, consequently, are classified as Level 2.

4. STOP-LOSS AGREEMENTS

The Fund has entered into stop-loss and/or reinsurance agreements to reduce its exposure to catastrophic or higher than expected claim costs. Each of the Fund's programs, except unemployment compensation and auto physical damage, has its own stop-loss agreement in place with various terms, conditions, and levels of retention. The Fund's Interlocal Participation Agreements state that the Fund is not responsible for any payment or any obligations to the program participant from any reinsurer, stop-loss carrier, or excess coverage provider. Based on its assessment of the creditworthiness of its reinsurers, management believes that nonpayments from stop-loss carriers are not likely to occur.

At August 31, 2025 and 2024, stop-loss recoverable of \$24,887,327 and \$44,036,654, respectively, have been deducted from the reserve for losses and loss adjustment expenses. As of August 31, 2025 and 2024, the Fund has also recorded stop-loss reimbursements receivable of \$12,100,886 and \$31,474,793, respectively, on claims paid by the Fund.

The Fund evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize exposure to losses from reinsurer insolvencies. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which include consideration of amounts, if any, estimated to be uncollectable by management. Management evaluated the creditworthiness of its reinsurers and determined that no valuation allowance was required as of August 31, 2025 and 2024.

5. ADMINISTRATIVE-SERVICES-ONLY MEMBERS

The Fund provides claims, loss control, and risk management services for certain self-insured members in exchange for an administrative fee.

6. RELATED-PARTY TRANSACTIONS

The Fund has entered into the following agreements with TASB, whereby TASB provides services related to the administration of the Fund. As administrator of the Fund, TASB significantly influences its management and operating practices and is a related party to the Fund.

- TASB provides administration and management services of the Fund's programs. Services include, but are not limited to, program management, claims administration, marketing, billing and collecting contributions, cash management, planning, underwriting, and loss control. An administrative service agreement with TASB was entered into effective September 1, 2021 and remains in effect for a period of 60 months. Either party may terminate the agreement with notice of 180 days.

The Fund paid TASB approximately \$33,782,030 and \$32,507,914 for such services for each of the years ended August 31, 2025 and 2024, respectively. As of August 31, 2025 and 2024, the amount paid is net of a receivable for \$448,528 and \$522,492, respectively, for overpayment of the TASB administrative fee. This receivable, which is reported in prepaid expenses and other assets, is expected to be paid in full in November 2025 for August 31, 2025.

- The Fund and TASB have a sponsorship and royalty agreement which gives the Fund use of certain intellectual assets, i.e., TASB's name and logo. The Fund incurred \$2,200,000 in these fees to TASB for the years ended August 31, 2025 and 2024.

7. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Management establishes a liability for losses and loss adjustment expenses (LAE) based primarily upon consultation with its independent actuary. These loss reserves are based upon the accumulation of (i) case base estimates for losses and expenses on claims reported and in process of settlement, (ii) estimates of additional reserves for reported claims based on statistical analyses, and (iii) estimates of losses and expenses incurred but not reported based upon past experience. These reserves have been reduced by amounts anticipated to be recovered from stop-loss agreements, deductibles, and a discount to reflect the present value of the estimated reserve for the workers' compensation program. The estimates represent the ultimate cost of settling claims, including the effects of inflation and other societal and economic factors. Adjustments to these estimates are charged or credited to operations in the period they become known. Due to the nature of risks underwritten, such estimates of reserves could be more or less than the amount ultimately paid upon settlement of the claims.

The Fund records its workers' compensation reserves for losses and loss adjustment expenses at estimated net present value (discounted basis). The Fund's accounting policy is to consider future investment income when the earning asset base is equal to or greater than the anticipated ultimate unpaid claims liability at estimated net present value. Reserves are discounted using interest rates that are reasonable considering the Fund's historical investment earnings. For 2025 and 2024, a discount rate of 4% and 3%, respectively, has been used in the calculation, resulting in discounts for the workers' compensation program of \$9,992,715 and \$10,071,983, respectively.

The following schedule represents changes in reserves for losses during the years ended August 31, 2025 and 2024. This schedule indicates that overall, during the 2024-2025 fiscal year, the Fund experienced an increase in current year losses. This resulted from an increase in incurred losses in the property program due to increased claim activity and higher reinsurance retentions along with an increase in unallocated loss adjustment expenses in most programs.

	Changes in Reserve	
	Year Ended August 31, 2025	Year Ended August 31, 2024
Reserve for losses and LAE - beginning of fiscal year	\$ 152,737,338	\$ 166,136,125
Net incurred claims and claim adjustment expenses:		
Provision for covered events of the current fiscal year	153,961,361	128,404,551
Change in provision for covered events of prior fiscal years	8,590,299	(26,448,486)
Change in estimated future investment income	(79,268)	33,983
Net incurred claims and claim adjustment expenses	162,472,392	101,990,048
Net payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	42,393,771	45,335,171
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	61,595,197	70,053,664
Net payments	103,988,968	115,388,835
Reserve for losses and LAE - end of fiscal year	\$ 211,220,762	\$ 152,737,338

As a result of changes in estimates of covered events in prior years, the provision for liability for claim losses and loss adjustment expenses increased by approximately \$8,590,000 in 2025 due to unfavorable development on case basis reserves. In 2024, the provision for liability for claim losses and loss adjustment expenses decreased by approximately \$26,448,000 due to favorable development on case basis reserves and less than anticipated incurred but not reported losses and loss adjustment expenses.
