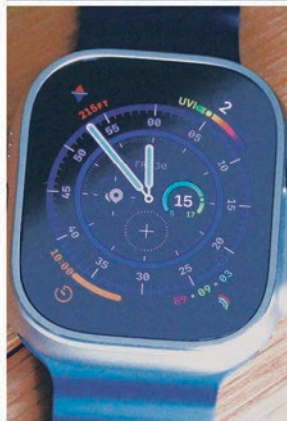




The First  
**35**



1988



2023

WHERE WILL  
 WE GO  
 FROM HERE?



Risk Management  
 Fund

2022/23  
 ANNUAL REPORT







# 2022/23 ANNUAL REPORT

Texas Water Conservation Association Risk Management Fund



## Contents

CHAIR’S LETTER .....	4
FUND SERVICES .....	6
KEY INDICATORS .....	8
REPORT OF INDEPENDENT AUDITOR’S .....	11
AUDITED FINANCIALS .....	13
FINANCIAL STATEMENT SUMMARY .....	16
COVERAGES .....	19
BOARD MEMEBERS .....	20
MEMBERSHIP .....	21
DUE DILIGENCE MEASURES .....	22
SAFETY AWARDS .....	23

# CHAIR'S LETTER

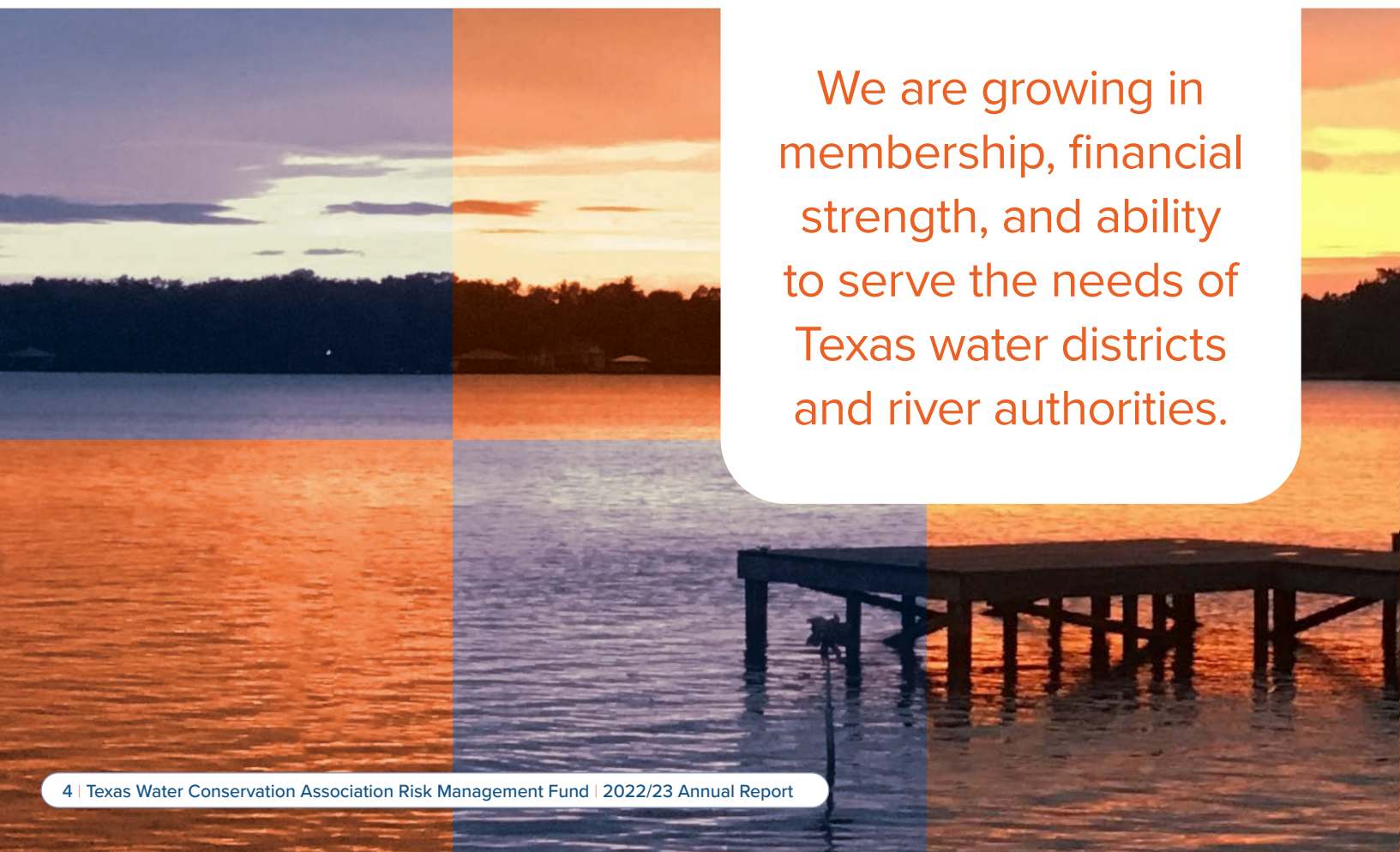
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## Dear Friends,

The Fund year recently completed saw many changes. In terms of the governance of the Fund, the Board of Trustees experienced significant turnover. We saw our Chair, Jace Houston leave the board as he left employment with the San Jacinto River Authority. This led to my assumption of the role of interim Chair. We also saw the retirements of John Grant from Colorado River Municipal Water District and Norman Ashton from Tarrant Regional Water District. John was replaced by John Womack, Systems Operation Manager at CRMWD and Norman was replaced by Mick Maguire, Chief Administrative Officer at TRWD. Jace was replaced by Pam Steiger, CFO at SJRA. We will miss the old guard but are delighted to have new members who can help the Fund continue its great tradition of service and evolve to reach new heights.

As you know, the Fund provides a pooled self-insurance program to protect the people, purpose, and assets of its members. Historically the cost of the insurance program has been significantly lower than the overall commercial insurance market. This is borne out by illustrations in the Annual Report. However, we have experienced large increases in the cost of Property reinsurance driven by catastrophic worldwide claims. We are exploring ways to reduce the impact of large weather-related claims through proactive property risk management measures.

In addition to the Fund's coverages, there is real value of the Fund in its many vital services to members that are available nowhere else in the commercial insurance world. Leadership Training, Risk Management Consulting, and Legal Consulting are available without charge to members. Another very significant addition to the Fund's consulting service is Cyber Risk Control. This is a crucial capability in the dangerous cyber environment water districts find ourselves in today. The constant pressure of attempted breaches, phishing, and ransomware can impose huge costs and disruptions to our members and their customers. The Fund's Cyber Consultant, Lee Cain, offers cyber



We are growing in membership, financial strength, and ability to serve the needs of Texas water districts and river authorities.



risk assessments for members that review your policies, surveillance, records management, anti-virus and firewalls, disaster and breach recovery, IT purchasing, and website hosting. Each report Lee provides lists the Top Five IT suggested recommendations that often include recommendations for improved password policy, development and implementation of a business continuity plan, and implementation of security awareness training. In fact, Lee provided an assessment and report for my District early in 2023 that we have found to be very helpful.

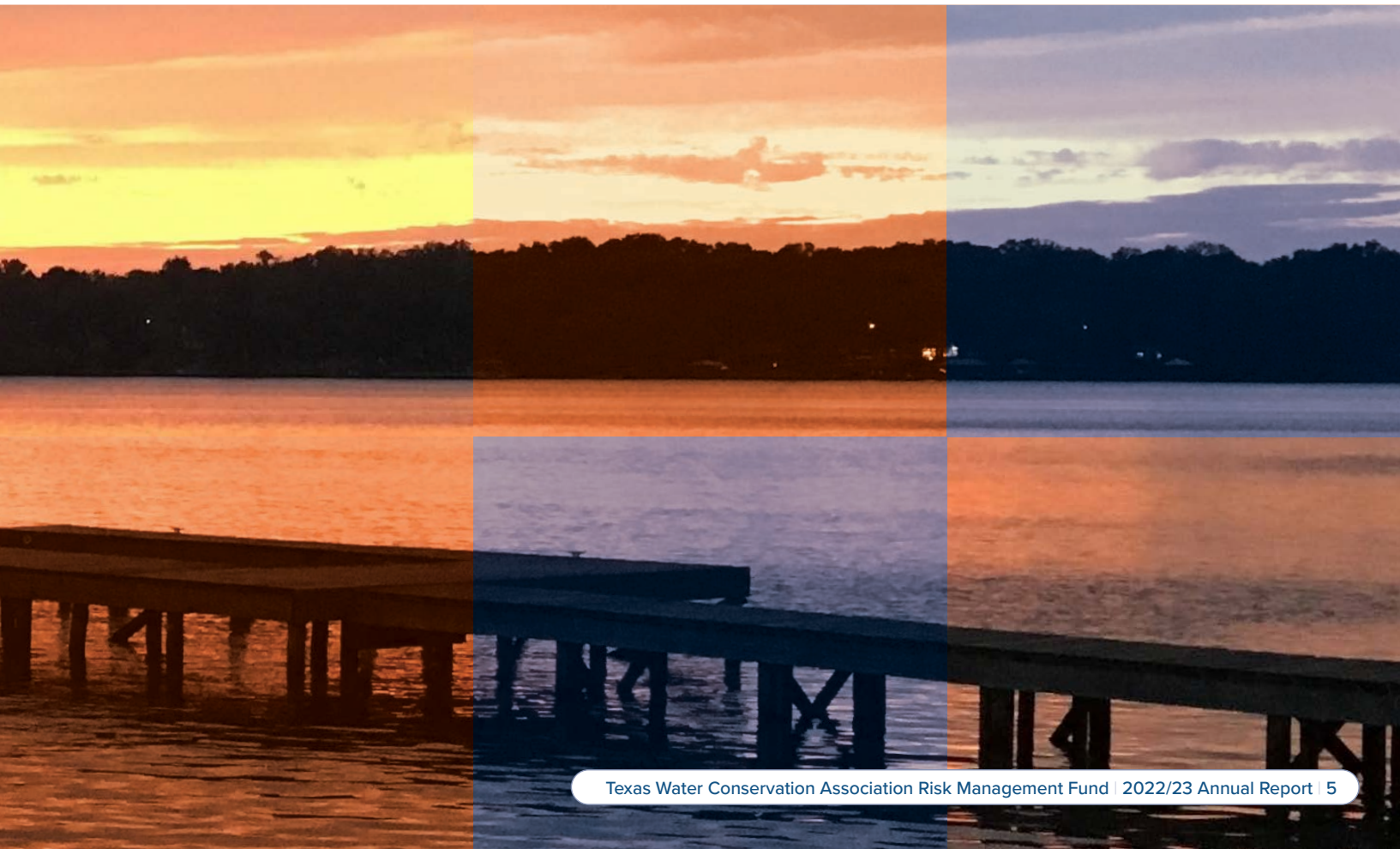
Significant financial achievements during the 2022/2023 year included a return to investment growth after a few quarters of decreased returns during the recent economic downturn and strengthening the Net Position. The Fund also returned to full staffing after the rigors of recruitment and retention during the covid pandemic. The Fund went through a Performance Audit of Administrative Services that showed “very good to outstanding “ performance. This is part of the built-in due diligence the Fund Board undertakes. This due diligence will be highlighted in the Annual Report.

Please review the report for additional insights on our very strong financial performance and benchmarks that help us monitor and judge the Fund’s health. In all, 2022/2023 was a very interesting and good year for the Fund. We are growing in membership, financial strength, and ability to serve the needs of Texas water districts and river authorities. Thank you for your membership and loyalty to the TWCA Risk Management Fund.

Sincerely,

**Kathy Turner Jones**

Chair, TWCARMF Board of Trustees



# ABOUT THE TWCARMF

## An Extraordinary Commitment to Service

The TWCA Risk Management Fund provides many valuable services for its members. The following list highlights the services and characteristics that distinguish the Fund from its competitors and fulfill its strong service commitment to members. The Fund encourages members to understand and take advantage of these services.

- ▶ Fund members own and govern the Fund. Each member has a financial stake in the Fund.
  - ▶ The Board of Trustees is composed of leaders from water districts including river authorities, irrigation districts, groundwater conservation districts, municipal water districts, and a drainage district. All Fund members are welcome to attend Board meetings and address their particular concerns to the Board.
  - ▶ Loss Prevention services are provided by Loss Control Consultants for:
    - Facility safety inspections
    - Direct and virtual consultations regarding specific safety issues
    - Safety training
    - Helping form and coach safety committees
    - Investigating serious accidents
    - Driver training specific to water district vehicles and usage
  - ▶ Loss Control staff members also present in person and virtual Safety Seminars and Training. Recent Topics developed specifically for Texas Water Districts and Authorities include:
    - Current TWCARMF Claim Trends – TWCARMF Workers' Compensation Claims Experience
    - Trench Safety Best Practices
    - How to Create and Maintain a Safety Culture
    - Slips, Trips, and Falls
    - Ergonomics at Work
    - Strains & Sprains
    - Property Loss Risk Management
    - Defensive Driving
    - Inclement Weather Driving
    - Lock-Out/Tag-out
  - ▶ Cyber Risk Consulting is provided by experienced Cyber professionals that includes:
    - Cyber risk control assessments
    - IT Asset Inventory
    - Cyber Breach Response
    - Cyber Alerts
    - Evaluation and recommendations for Wi-Fi Security, Password policy, acceptable use policy, and Records Management
    - Cyber Training
    - Incident Response Plan Training
  - ▶ Risk Management Consulting services include:
    - Comprehensive on site/virtual risk management reviews for members resulting in a report to management and recommendations for improvements in all areas of risk
    - Security assessments for members' facilities with recommendations for improvements
    - Contract issues including general and supplemental conditions
    - Insurance requirements
    - Claim analysis
    - Policies and procedures designed to improve risk management review of contracts for specific projects, including dams, wastewater treatment plants, pump stations, and pipelines.
    - Analysis of specific project coverages such as large Builders Risk, Bonds, or Pollution policies
  - ▶ Leadership Training for managers and supervisors is provided through courses such as:
    - Holding Employees Accountable
    - Managing Difficult People
    - Effective Delegation
    - Communicating Effectively
    - Performance Management
    - Respect in the Workplace
    - Situational Leadership
    - Active Listening
    - Building team and Trust
    - Courageous Conversations
    - Coaching with Confidence
- Training is provided at the district or in a regional setting without cost to the member. In person training resumed in 2022 with a watchful eye on any pandemic resurgence. Frequent webinars are also conducted on many of the Leadership topics.*
- ▶ Legal Consulting is offered to all members without cost by a designated attorney well qualified in laws governing public entities in Texas.
  - ▶ Amicus briefs or other legal assistance on behalf of members in litigation that could have wide impact on Fund members is decided and offered at the discretion of the Board of Trustees.



- ▶ Fund publications include:
  - **Risk Advisor**, quarterly newsletter about current trends and developments in safety and risk management
  - **Bulletins** provide in depth coverage of current risk management topics such as Flood Insurance, Contracts, Property Coverage, and Hurricane Preparedness
  - **Risk Alerts** issued when members need to know about current risk related events such as tropical storms, cyber threats, or potential pandemics
  - **Emergency Management Resources** guide (published in 2018)
  - **Personnel Policies Guide** (updated in 2018)
  - **Annual Report**
- ▶ Annual property valuations and periodic professional on-site appraisals ensure accurate replacement cost values to prevent under-insurance in the event of a loss.
- ▶ Efficient online services for:
  - Claim reporting
  - Dashboard style loss history
  - Online renewals
  - Online MVR checks with quick, same day response for new hires
  - Accessible and useful website with significant content including:
    - Upcoming events
    - Sign-up for workshops and seminars
    - Archived publications
    - Library of resources
- ▶ Dedicated claims adjusters handle workers' compensation, general and automobile liability, errors and omissions, employment liability, and property claims for Fund members.
- ▶ Members have access to the Political Subdivision Workers' Compensation Alliance that provides direct contracting with medical providers that give member employees immediate access to care, excellent outcomes, and reduced medical costs.
- ▶ Coverages have evolved over time to respond to emerging risks or coverage needs such as:
  - Dam Failure liability
  - Defense of Ultra Vires Actions against individual district trustees
  - Limited Pollution Liability
  - Assumption of Liability by Contract
  - Limited Coverage for Punitive Damages
  - Employee Benefits Liability
  - Cyber Coverage including 24-hour breach response
  - Defense of Takings Claims
  - Reimbursement for Criminal Defense after dismissal
- ▶ Medical bill review for cost, appropriateness, and efficacy is standard on every claim.
- ▶ Accredited nurse case managers are available to help seriously injured workers and their families navigate and understand medical treatment and communicate with their doctors.
- ▶ Member Input is welcomed and encouraged. Very often the member has information about a claim that can impact its outcome. For instance, when there is doubt about the cause of a claim and whether or not it is work related. An example is the employee who is injured in a car accident during his lunch hour. To cover his injuries for Workers' Compensation, the injury must be in "the course and scope" of his job. At first glance and injury during lunch while driving to pick up a sandwich might be denied. The reality was he was driving to a heavy equipment dealer to pick up a part for an excavator on his way back to the job site. The claim is covered based on this important information from the member.
- ▶ Although our coverage documents did not permit acceptance of a claim for damages based on allegations of takings caused by a huge flood event, the potential effect on all Fund members of an adverse court decision motivated the Board of Trustees to provide supplemental defense consulting for the litigation. This action has occurred in other claim situations and is one of the things that separates the Fund from any other insurance companies. The Board has the flexibility and vision to decide when intervention in a claim that is not otherwise covered is for the benefit of Fund Members.
- ▶ Through vigorous defense of claims for accidental drownings on lakes and streams the Fund has reduced the frequency of suits where there may be sympathy for the victims but no legal obligation to pay for damages. The Fund's diligence about not paying claims when there is no obligation helps keep rates for coverage low.
- ▶ Claims are handled efficiently and with consideration for the claimants and our members. We use mediation and arbitration methods to avoid full blown litigation and get claims settled quickly. The Texas Tort Claims limits impose a cap on liability that is usually not a great incentive for plaintiff's attorneys to pursue to litigation in court.

# KEY INDICATORS

## Reinsurance Program

Protection from catastrophic losses through comprehensive reinsurance is provided by Government Entities Mutual, Genesis, FM Global and Midwest Employers, the latter three being rated by AM Best as A+ reinsurance carriers in a carefully designed program to protect the Fund and its members.

The Fund retains a portion of each claim then reinsurance pays for amounts exceeding the retention up to their limit of liability. Current retentions and reinsurer limits are shown in the table:

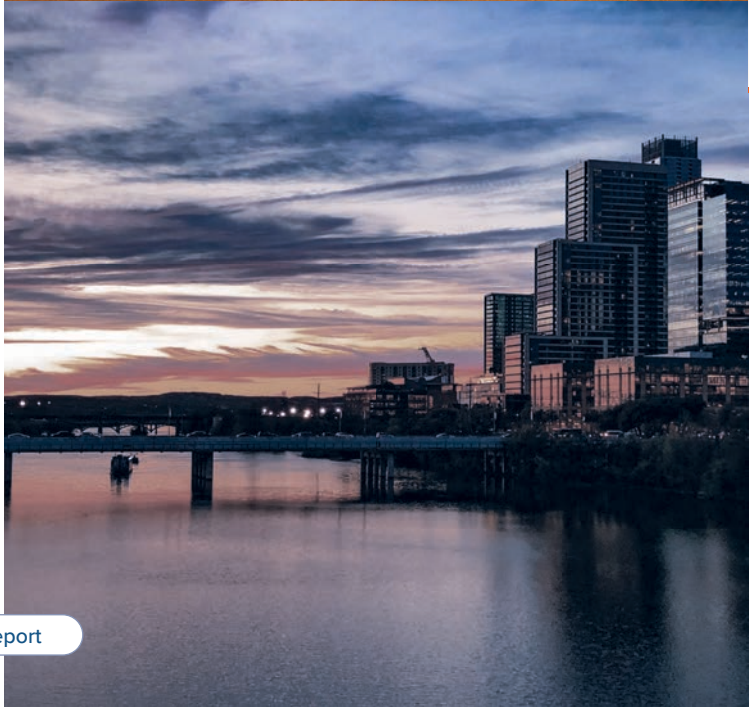
Coverage Program	Fund Retention	Reinsurer Limit of Liability	Maximum
Workers' Comp	\$500,000	Statutory*	\$1,500,000
Liability	\$400,000	\$9,600,000	\$10,000,000
Property	\$250,000	\$500,000,000	\$500,000,000

\*Statutory limits mean that limits track the benefits set forth in the Workers' Compensation statute in the Texas labor Code. The statute sets no maximum limit on medical benefits to injured workers.

## Financial Highlights

Total assets of the Fund increased in 2022/2023. Incurred losses decreased while member net position increased significantly. Member contributions were flat although Property Reinsurance cost did increase substantially. Use of surplus helped offset contribution increases to members.

2022/23	(rounded)
Total Assets	\$ 30,000,000
Long Term Investments	\$ 24,000,000
Member Net Position	\$ 22,300,000
Gross Contributions	\$ 10,600,000
Net Contributions	\$ 5,600,000
Investment Income	\$ 565,000
Incurred Losses	\$ 3,000,000
Net Position Change	\$ 1,100,000



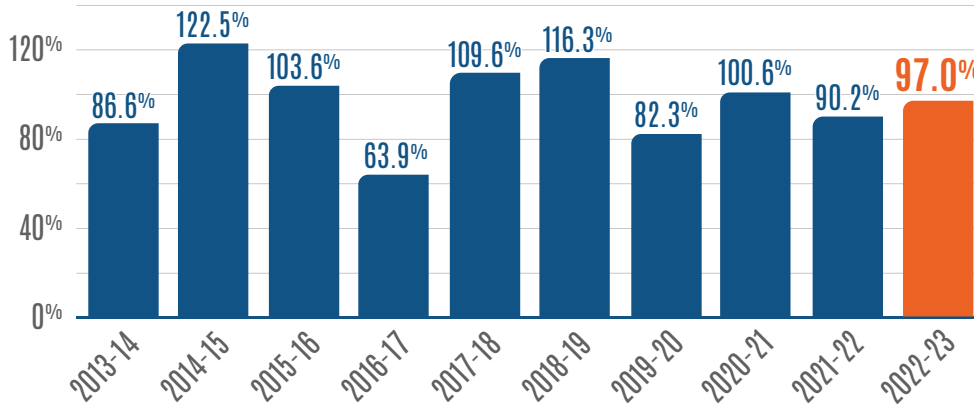


# KEY INDICATORS (CONT'D)

## Combined Ratio

A combined ratio is an insurance industry measure of the relationship of claims costs and expenses to the premiums (contributions) paid by their insureds (members). Results in the 2022/2023 year were not quite as favorable as the prior year due to increased reinsurance and stable contributions. Tropical storm and other weather-related losses contribute to the variability in results from year to year.

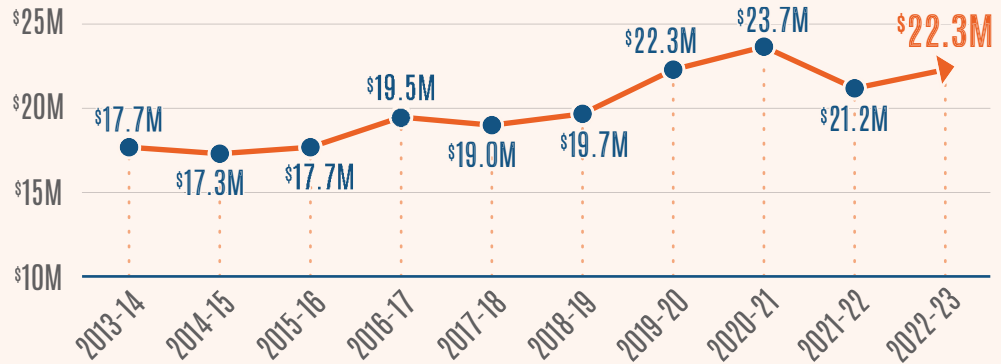
TWCARMF Combined Ratios 2013–23



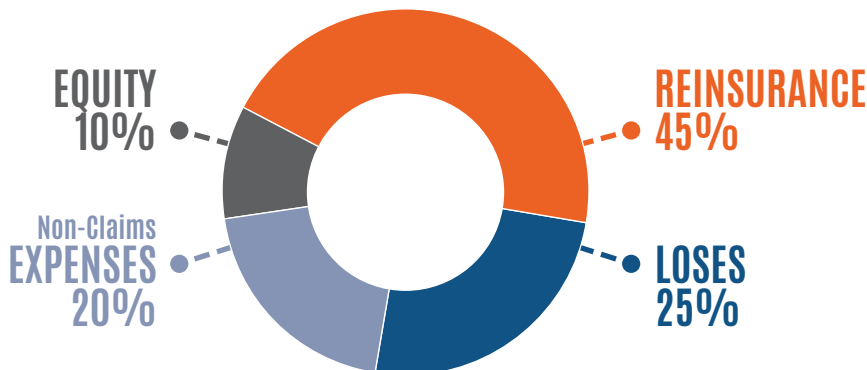
## Net Position

The progress of Members' Net Position or equity in the Fund is illustrated in the next chart. The improved claim results and improved investment earnings translate to a healthy increase in net position this year.

TWCARMF Net Position 2013–23



TWCARMF Use of Contributions 2022/23



## Use of Contributions

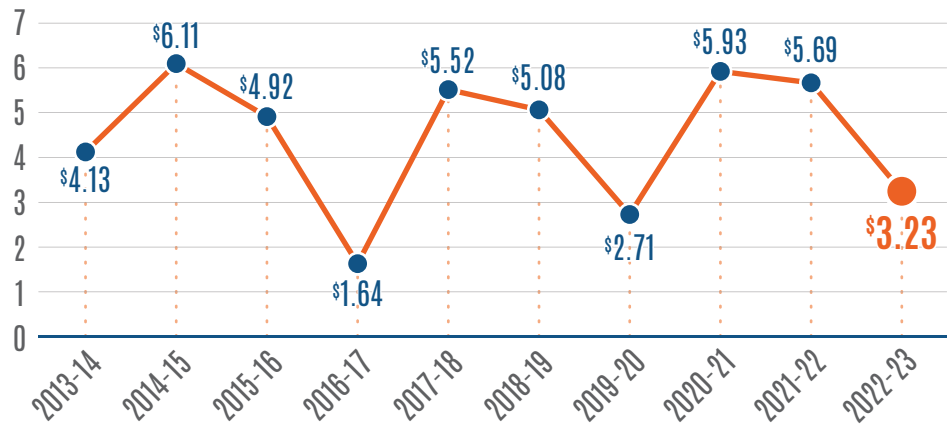
This chart illustrates the main categories of expenses paid with member contributions.

# KEY INDICATORS (CONT'D)

## The All Lines Loss Rate

The All Lines Loss Rate is a Fund benchmark of the total of all claims incurred (paid and reserved) over the last ten years as a rate per \$1,000 net operating expenditures for all members. Individual members can use this rate to compare their own loss rate to all other members of the Fund. The fluctuation from year to year is usually due to large property losses from tropical storms, hail, or severe winter weather.

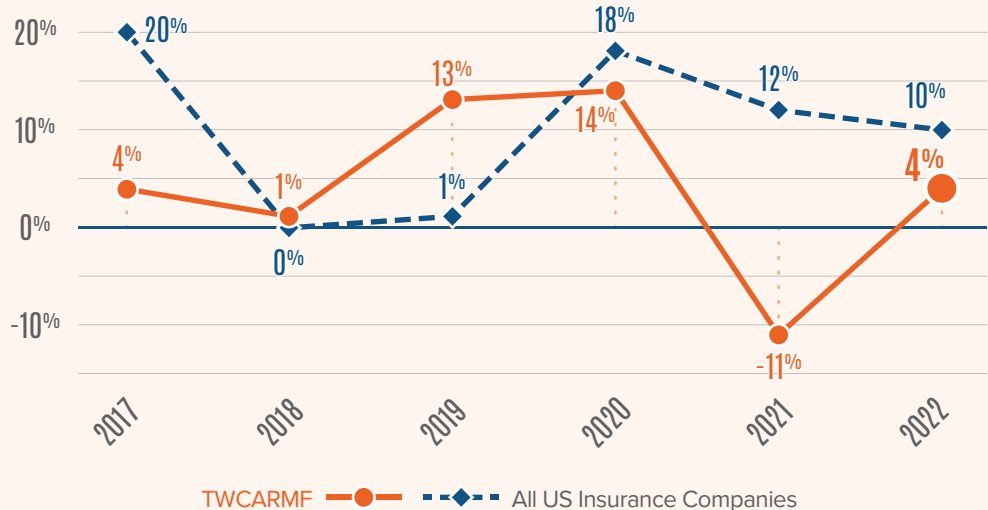
TWCARMF All Lines Loss Rate per \$1,000 Net Operating Expenditures  
All Fund Members 2013–23



## TWCARMF Rate of Increase vs. All U.S. Commercial Insurance Companies

The final chart compares the rate increases or decreases selected by the Board of Trustees each year in May to the overall rate changes in the U.S. Commercial Insurance market as tabulated by Marsh USA.

TWCARMF vs All US Insurance Companies  
Rate Change by Year 2017–22





# REPORT OF INDEPENDENT AUDITORS



Board of Trustees  
Texas Water Conservation Association Risk Management Fund

## **OPINION**

We have audited the financial statements of Texas Water Conservation Association Risk Management Fund (the Fund), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **BASIS FOR OPINION**

We conducted our audit 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.

## **OTHER MATTER**

The financial statements of the Fund for the year ended June 30, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on December 1, 2022.

## **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 twelve 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.

# REPORT OF INDEPENDENT AUDITORS (CONT'D)

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 an ongoing 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 on pages 4–10 and accompanying supplementary schedules listed on pages 28–32 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 Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## OTHER INFORMATION

Our audits were conducted for the purpose of forming an opinion on the Fund's financial statements as a whole. The statements of net position by program and the statements of revenues, expenses, and changes in net position by program on pages 34–37 are presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Williston, Vermont  
November 6, 2023  
Vermont firm registration: 092-0000267



# AUDITED FINANCIALS

## Statements of Net Position As of June 30, 2023 and 2022



	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 1,388,285	\$ 3,016,486
Investments – short-term (Note 3)	550,947	319,546
Contributions receivable from members, including unbilled contributions of \$267,895 and \$207,509 at June 30, 2023 and 2022, respectively (Note 2)	465,169	261,828
Reinsurance receivable – paid (Note 6)	246,547	1,170,504
Accrued interest	127,419	111,528
Prepaid expenses	44,783	19,459
	<hr/>	
Total current assets	2,823,150	4,899,351
NONCURRENT ASSETS:		
Investments – long-term (Note 3)	26,613,259	24,847,090
Other assets – long-term (Note 9)	500,000	500,000
	<hr/>	
Total noncurrent assets	27,113,259	25,347,090
	<hr/>	
TOTAL ASSETS	\$ 29,936,409	\$ 30,246,441
<hr/>		
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	\$ 2,908,409	\$ 4,521,241
Unearned member contributions	26,406	1,742,807
Other accrued expenses and liabilities	533,084	261,195
	<hr/>	
Total current liabilities	3,467,899	6,525,243
LONG-TERM LIABILITIES – Reserve for losses and loss adjustment expenses – net of reinsurance (Notes 5 and 6)		
	4,136,873	2,506,419
	<hr/>	
Total liabilities	7,604,772	9,031,662
	<hr/>	
NET POSITION – unrestricted	22,331,637	21,214,779
	<hr/>	
TOTAL LIABILITIES AND NET POSITION	\$ 29,936,409	\$ 30,246,441
	<hr/>	

See notes to financial statements.

# AUDITED FINANCIALS •

## Statements of Revenues, Expenses, and changes in Net Position For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>CONTRIBUTIONS:</b>		
Gross contributions earned	\$ 10,934,816	\$ 9,605,670
Reinsurance contributions ceded (Note 6)	(5,327,163)	(4,814,296)
Net earned contributions	5,607,653	4,791,374
<b>LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6)</b>		
Paid losses and loss adjustment expenses – net of deductibles, reinsurance recoveries and reinsurance recoverables	2,960,349	2,730,311
Change in reserve for losses and loss adjustment expense – net of deductibles and reinsurance recoverables	17,622	(583,712)
Net incurred losses and loss adjustment expenses	2,977,971	2,146,599
<b>OTHER OPERATING EXPENSES:</b>		
Contract and support fees (Notes 4 and 7)	1,384,526	1,312,332
Loss control fees	450,372	425,237
Legal and professional fees	244,820	191,396
Other expenses	221,409	247,704
Total other operating expenses	2,301,127	2,176,669
OPERATING INCOME	328,555	468,106
<b>OTHER INCOME (LOSS):</b>		
Investment income	565,236	536,121
Change in fair value of investments	223,067	(3,472,665)
Total other income (loss)	788,303	(2,936,544)
CHANGE IN NET POSITION	1,116,858	(2,468,438)
NET POSITION – Beginning of year	21,214,779	23,683,217
NET POSITION – End of year	<u>\$ 22,331,637</u>	<u>\$ 21,214,779</u>

See notes to financial statements.



# AUDITED FINANCIALS

## Statements of Cash Flows For the years ended June 30, 2023 and 2022

	2023	2022
<b>OPERATING ACTIVITIES – Contributions:</b>		
Cash received from members	\$ 9,167,946	\$ 10,733,469
Cash paid to reinsurers	(5,307,704)	(4,815,083)
Net contributions received	3,860,242	5,918,386
<b>LOSSES – Paid losses and loss adjustment expenses</b>	<b>2,036,392</b>	<b>3,734,414</b>
<b>OTHER OPERATING EXPENSES:</b>		
Payment for contract and support fees	1,384,526	1,312,332
Payment for loss control fees	397,710	446,609
Payment for legal and professional fees	244,820	189,396
Payment for other expenses	199,838	267,590
Total other operating expenses paid	2,226,894	2,215,927
Net cash and cash equivalents from operating activities	(403,044)	(31,955)
<b>INVESTING ACTIVITIES:</b>		
Cash received from maturities of investments	7,254,963	8,529,235
Purchase of investments	(9,029,466)	(12,366,128)
Income from investing activities	549,346	527,362
Net cash and cash equivalents from investing activities	(1,225,157)	(3,309,531)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,628,201)</b>	<b>(3,341,486)</b>
<b>CASH AND CASH EQUIVALENTS – Beginning of year</b>	<b>3,016,486</b>	<b>6,357,972</b>
<b>CASH AND CASH EQUIVALENTS – End of year</b>	<b>\$ 1,388,285</b>	<b>\$ 3,016,486</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income	\$ 328,555	\$ 468,106
Adjustments to reconcile operating income to cash and cash equivalents from operating activities – changes in operating assets and liabilities:		
Contributions receivable from members	(203,341)	273,451
Reinsurance receivable – paid	923,957	(1,004,103)
Reserve for losses and loss adjustment expense	17,622	(583,715)
Prepaid expenses	(25,324)	(787)
Other accrued expenses and liabilities	271,889	(30,449)
Unearned member contributions	(1,716,401)	845,542
Net cash and cash equivalents from operating activities	\$ (403,044)	\$ (31,955)
<b>NON-CASH FINANCING &amp; INVESTING ACTIVITIES</b>		
Change in fair value of investments	\$ 223,067	\$ (3,472,665)
Change in investment income accruals	\$ (15,890)	\$ (8,765)

See notes to financial statements.

# FINANCIAL STATEMENT SUMMARY

As of June 30, 2023

## Section One: Financial Statements

	June 2023	June 2022	Change
<b>Assets</b>	29,930,216	30,246,442	▼ (316,226)
<b>Liabilities</b>	7,598,575	9,031,660	▼ (1,433,086)
<b>Net Position</b>	22,331,641	21,214,782	▲ 1,116,859

### ASSETS:

- ▶ Collection of current fund year contributions and stable outflows contributed to stability in assets during the fund year.
- ▶ The investment portfolio produced income of \$465,000 during the fiscal year while experiencing an unrealized gain of \$220,000 as of 6/30/2023 which compares favorably against the unrealized losses experienced in the prior year.

### LIABILITIES AND NET POSITION:

- ▶ The liability for unpaid claims was flat over the prior year. The most recent actuarial analysis using losses as of June 30, 2023, resulted in reductions to the ultimate losses in the workers' compensation and property programs (\$1.8 million and \$1.6 million, respectively), and a modest increase of \$263,000 in the liability program.

	June 2023	Budget   % Used (target = 100%)	June 2022
<b>Contributions</b>	10,830,991	● 10,401,108   104%	▲ 9,764,669
<b>MCP Adjustments</b>	33,980	--   --	▲ (223,282)
<b>Investment Income</b>	464,965	● 510,000   91%	▲ 430,132
<b>Unrealized Gain (Loss)</b>	223,067	● --   --	▲ (3,472,667)
<b>Claim Expense</b>	(2,977,971)	● (4,104,327)   73%	▲ (2,146,591)
<b>Reinsurance</b>	(5,327,623)	● (5,752,616)   93%	▲ (4,814,296)
<b>General &amp; Admin.</b>	(2,200,855)	● (2,234,073)   99%	◆ (2,070,683)
<b>Net Income</b>	1,116,859	● (1,111,008)	▲ (2,468,433)

● = on plan | ● = expected variance | ▲ increase over PY | ▼ decrease over PY



# FINANCIAL STATEMENT SUMMARY (CONT'D)

## REVENUES

- ▶ Earned contributions are stable and in line with the budget.
- ▶ Investment income (excluding unrealized gains and losses) was on budget for the fiscal year. The portfolio produced earnings of \$430,000 during the fiscal year and an unrealized gain of \$223,000 since July 1st due to improvements in the equity markets.

## EXPENSES

- ▶ Claims expense is below budget for the period due to the recent reduction in the actuarial estimates of ultimate losses as discussed above.
- ▶ Excess insurance expense is below budget due to credits offered by FM Global that were not incorporated into the budgeted expense.
- ▶ General & Administrative expenses are in line with budget expectations and the prior year.

## NET INCOME

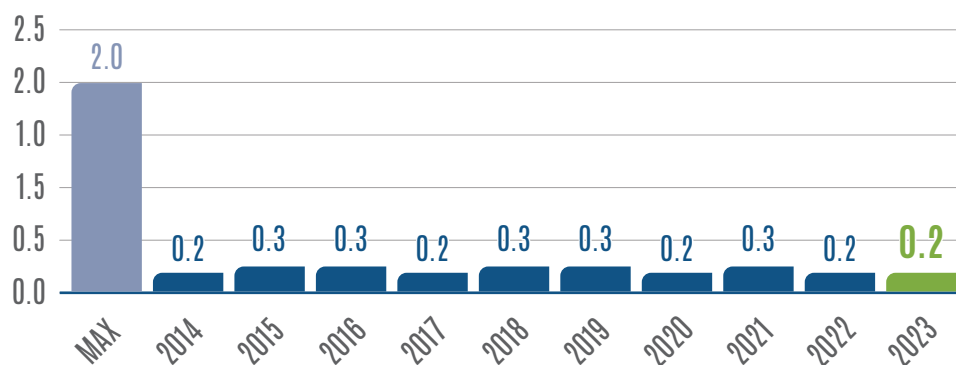
- ▶ The Fund posted a net gain for the period which was primarily due a reduction in claims expenses during the fund year and improvements in the investment returns.



## Section Two: Ratio Analysis

### RATIO A: NET CONTRIBUTION TO NET POSITION

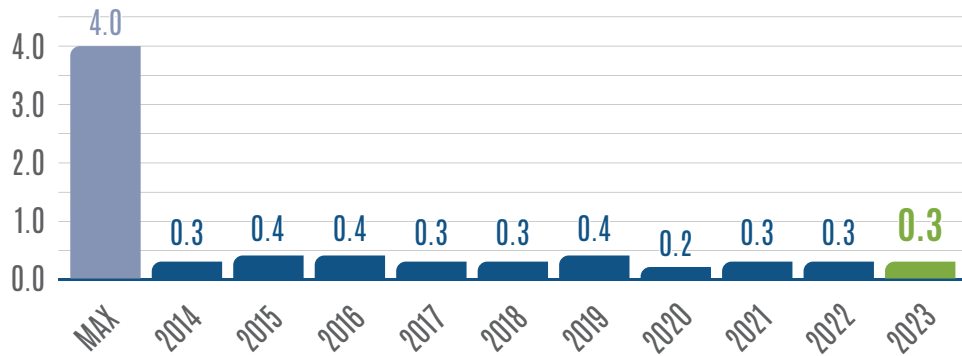
	Net Contribution	Net Position	Ratio	Target	Result
June 2023	5,520,108	/ 22,331,641	0.25:1	<2:1	<span style="color: green;">●</span>



# FINANCIAL STATEMENT SUMMARY (CONT'D)

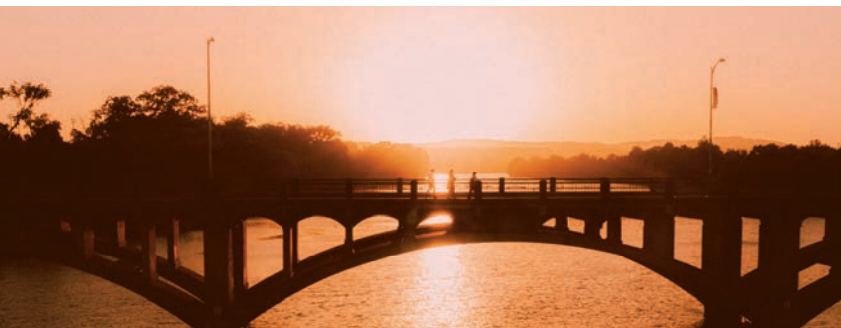
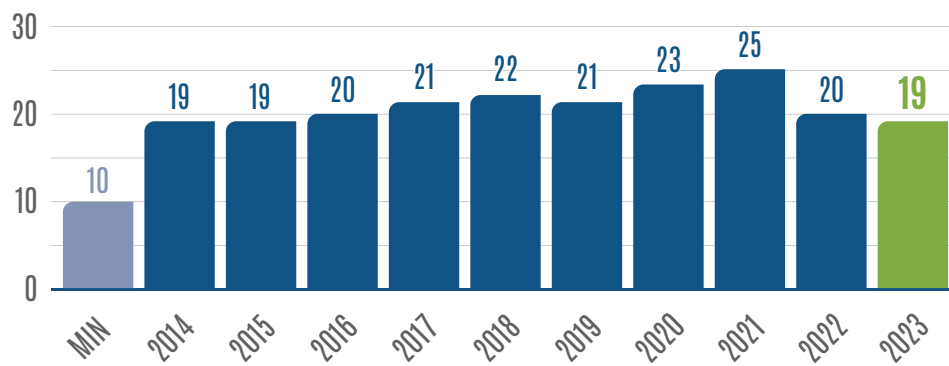
## RATIO B: UNPAID CLAIMS TO NET POSITION

	Net Contribution	Net Position	Ratio	Target	Result
June 2023	6,798,735	/ 22,331,641	0.30:1	<3:1	●



## RATIO C: NET POSITION TO SELF-INSURED RETENTION

	Net Contribution	Net Position	Ratio	Target	Result
June 2023	22,331,641	/ 1,150,000 <i>(WC SIR Increased by \$100k 7/1/22)</i>	19:1	>10:1	●





# COVERAGES

The TWCA Risk Management Fund offers comprehensive coverage programs designed for Texas water districts and authorities. Coverages are subject to constant evaluation and revision based on emerging risks facing members. Coverages have been evolving since the Fund started in 1988. Details of the coverages summarized below are included in the Fund's coverage documents.

## **WORKERS' COMPENSATION**

The Fund provides statutory Workers' Compensation coverage with unlimited medical benefits and lost wages for employees injured on the job and in the course of their employment. Lost wage payments are limited in duration by statute to help encourage the employee's return to work after an injury. Claims adjusters coordinate with employers' return to work programs and help the injured employee achieve the best medical care and earliest return to work possible. For serious medical claims, a nurse case manager is assigned to help guide the injured worker and family through the complicated medical process. The Fund also uses a network of pre-qualified and credentialed doctors and providers for all medical services.

## **GENERAL LIABILITY**

General Liability coverage responds to bodily injury or property damage to third parties arising out of the member's premises or operations. Liability coverage is subject to Texas Tort Claims Act limits.

## **ERRORS & OMISSIONS**

Errors & Omissions coverage responds to allegations of wrongful acts by employees, officers, and directors. It includes coverage for employment related actions by the member including allegations of discrimination or retaliation and claims arising out of employee benefits administration. Recent changes to coverage include defense for directors brought into ultra vires suits against the member and reimbursement for expenses related to dismissed criminal accusations against board members.

## **AUTOMOBILE LIABILITY**

The Fund provides coverage for third party claims of bodily injury or property damage from the operation of member owned, hired, or non-owned vehicles subject to Texas tort claim limits. Coverage for damage to the member's own vehicles is also provided.

## **PROPERTY**

Coverage protects district buildings, contents, contractor's equipment, and water related equipment and facilities from all risks of direct physical loss. Coverage includes physical damage to owned or leased vehicles and Flood coverage for facilities not in a 100-year flood plain.

## **CYBER COVERAGE**

Cyber Liability provides both liability and property coverage for the district's computers, software, and data processing operations. Damage to equipment and software by malware, viruses, ransomware, or other breach attempts are covered. Liability to the district from breaches of private and confidential information is also covered for breach response, breach forensics, expenses to notify parties who were victims of the breach, and any fines levied by regulatory authorities. Basic coverage is provided by a master policy for members of the Fund by Beazley LLC., a Lloyd's of London syndicate. Beazley provides a 24-hour breach response to help a district contain a breach, limit damage, respond, and determine how the breach occurred.

## **ANCILLARY COVERAGES**

Fund staff also help members find coverages that are not included in the primary Fund coverages. Bonds, Pollution Liability, Flood (in designated flood plains), Builders Risk, and Aircraft Liability are some of the policies we help obtain for members outside the Fund.

# BOARD MEMBERS

TWCARMF Board Members as of June 30, 2023

**Mr. Jeffrey Mayfield** (Place 1)

- North Texas Municipal Water District

**Ms. Liz Fazio Hale** (Place 2)

- Gulf Coast Authority

**Mr. Jonathan Stinson** (Place 3)

- Guadalupe-Blanco River Authority

**Mr. Derek Boese** (Place 4)

- San Antonio River Authority

**Mr. Sonny Hinojosa** (Place 5)

- Hidalgo County Irrigation District #2

**Ms. Kathy Turner Jones** (Place 6)

- Fund Chair
- Prairielands Groundwater Conservation District

**Mr. Mick Maguire** (Place 7)

- Tarrant Regional Water District

**Mr. John Womack** (Place 8)

- Colorado River Municipal Water District

**Mr. David Montagne** (Place 9)

- Sabine River Authority of Texas

**Mr. Jace A. Houston\*** (Place 10)

- San Jacinto River Authority

**Ms. Sonia Lambert** (Place 11)

- Cameron County Irrigation District #2 and Cameron County Drainage District #3

**Ms. Stacey Steinbach**

- Secretary (Non-Voting)
- Texas Water Conservation Association

*\*Jace Houston left San Jacinto River Authority on June 30, 2023. Kathy Turner Jones assumed the acting Chair position on that same date.*



# TWCARMF MEMBERSHIP

## RIVER AUTHORITIES

- Angelina & Neches River Authority
- Brazos River Authority
- Guadalupe-Blanco River Authority
- Lower Colorado River Authority
- Nueces River Authority
- Sabine River Authority of Texas
- San Antonio River Authority
- San Jacinto River Authority
- Sulphur River Basin Authority
- Upper Colorado River Authority

## MUNICIPAL WATER DISTRICTS AND AUTHORITIES

- Canadian River Municipal Water Authority
- Coastal Water Authority
- Colorado River Municipal Water District
- Franklin County Water District
- Greater Texoma Utility Authority
- Gulf Coast Authority
- Northeast Texas Municipal Water District
- North Harris County Regional Water Authority
- North Texas Municipal Water District
- Riverbend Water Resources District
- Tom Green County Fresh Water Supply District #2
- Upper Neches River Municipal Water Authority
- West Central Texas Municipal Water District
- West Harris County Regional Water Authority

## MUNICIPAL UTILITY DISTRICTS

- New Caney Municipal Utility District
- Roman Forest Consolidated Municipal Utility District
- Wells Branch Municipal Utility District

## SPECIAL UTILITY DISTRICTS

- Mustang Special Utility District

## WATER CONTROL & IMPROVEMENT DISTRICTS

- Angelina & Nacogdoches County Water Control and Improvement District #1
- Brown County Water Improvement District #1
- Cameron County Water Improvement District #10
- Hidalgo County Water Control and Improvement District #19
- Hidalgo County Water Improvement District #3
- Jefferson County Water Control and Improvement District #10
- Maverick County Water Control and Improvement District #1
- Stonewall Water Control and Improvement District
- Tarrant Regional Water District
- Tom Green County Water Control and Improvement District #1
- Wichita County Water Improvement District #2
- Zavala-Dimmit Counties Water Improvement District #1

## PORT AUTHORITIES & NAVIGATION DISTRICTS

- Chambers-Liberty Counties Navigation District
- Orange County Navigation and Port District
- Victoria County Navigation District
- West Side Calhoun County Navigation District

## GROUNDWATER CONSERVATION DISTRICTS

- Brazoria County Groundwater Conservation District
- Coastal Bend Groundwater Conservation District
- Coastal Plains Groundwater Conservation District
- Evergreen Underground Water Conservation District
- Fort Bend Subsidence District
- Harris-Galveston Subsidence District
- Hemphill County Underground Water Conservation District
- High Plains Underground Water Conservation District
- Kenedy County Groundwater Conservation District
- Lone Star Groundwater Conservation District
- Medina County Groundwater Conservation District
- Mid-East Texas Groundwater Conservation District
- North Plains Groundwater Conservation District
- North Texas Groundwater Conservation District
- Northern Trinity Groundwater Conservation District
- Panhandle Groundwater Conservation District
- Panola County Groundwater Conservation District
- Pineywoods Groundwater Conservation District
- Plum Creek Conservation District
- Prairielands Groundwater Conservation District
- Red River Groundwater Conservation District
- Sandy Land Underground Water Conservation District
- Southeast Texas Groundwater Conservation District
- Upper Trinity Groundwater Conservation District

## IRRIGATION DISTRICTS

- Brownsville Irrigation District
- Cameron County Irrigation District #2
- Cameron County Irrigation District #6
- Delta Lake Irrigation District
- Donna Irrigation District Hidalgo County #1
- Harlingen Irrigation District Cameron County #1
- Hidalgo and Cameron Counties Irrigation District #9
- Hidalgo County Irrigation District #1
- Hidalgo County Irrigation District #2
- Hidalgo County Irrigation District #5
- Hidalgo County Irrigation District #16
- Santa Cruz Irrigation District #15
- United Irrigation District of Hidalgo County
- Valley Acres Irrigation District
- Ward County Irrigation District #1

## DRAINAGE DISTRICTS

- Brazoria County Drainage District #4
- Brookshire-Katy Drainage District
- Cameron County Drainage District #1
- Cameron County Drainage District #3
- Cameron County Drainage District #5
- Cameron County Drainage District #6
- Galveston County Consolidated Drainage District
- Green Dewitt County Drainage District
- Jefferson County Drainage District #3
- Jefferson County Drainage District #7
- Orange County Drainage District of Texas
- San Patricio County Drainage District



# TWCARMF DUE DILIGENCE MEASURES

The TWCA Risk Management Fund has some good indicators that it is doing a good job for its members. Over the past five years, no members have left the Fund to try to find better coverage somewhere else. New members have joined after going through a bidding process and the Fund has been in business successfully for 35 years. These are favorable outward measures of effectiveness, but the Fund is not solely reliant upon these measures and has implemented a series of due diligence processes that help the board, members, and the administrators understand what is going well and what needs improvement. This continuing process includes the following measures.

## ANNUAL MEASURES

- ▶ Independent Financial Audit Report is prepared by an independent auditing firm working closely with Fund financial managers and analysts with complete access to all financial records and transactions. The auditor assesses whether the Fund's financial statements fairly and accurately reflect the Fund's business and its financial transactions. The auditor reports its findings directly to the Board of Trustees and issues its audit letter for the Board chair's signature.
- ▶ Actuarial Reports are prepared twice yearly to evaluate the loss history of the Fund and project future loss development for use in determining the adequacy of claim reserves and setting contribution rates. The report accounts for losses that have been incurred, but not yet reported, and the historical pattern of loss growth or decrease.
- ▶ The Annual Report to Membership is presented to all members annually. It includes key elements of the annual audit, provides important historical indicators of Fund performance, lists important services to members, and includes a letter from the Chair.

## PERIODIC MEASURES

- ▶ A Claims Audit is performed every three years by an independent firm that has extensive experience examining the claim practice of self-insured entities like the TWCARMF. The auditors look at a random selection of Workers' Compensation, Automobile Liability, and General Liability claims to assess the Fund's compliance with industry standards, its own recommended claim handling guidelines, and its overall effectiveness as a claims operation. Effectiveness indicators such as promptness of contact and payment, use of cost control mechanisms such as pre-approval of some procedures and medications, use of nurse case managers, and early return to work efforts. The Auditor's final report includes findings, recommendations, and the administrator's response. The final report is provided to the Board of Trustees for their review.
- ▶ An Administrative Performance Audit is conducted every five years to evaluate, analyze, and provide an opinion on TWCARMF's Fund Administrator's current

and past contractual services by department or core operation. The auditor analyzes and provides an opinion on the Fund Administrator's current and past contractual services on qualitative and quantitative pooling functions. They also provide an opinion on the reasonableness of the Fund Administrator's service fees. They also provide analysis to include review of membership services, claims handling, policyholder services, underwriting and rating functions, loss control, education, and training, financial and accounting, board meeting activities, planning meetings, and general operations. In the most recent report presented to the Board in March 2023, the auditor also noted that the Fund Administrator provides services that most other pools do not provide like extensive leadership training, cyber risk control, and risk management consulting.

## BOARD MEASURES

As part of its due diligence the Board of Trustees conducts:

- ▶ Annual update of three-year Strategic Plans,
- ▶ Quarterly Board Meetings and Annual Meeting open to all members,
- ▶ Rolling quarterly review of all governance documents and policies,
- ▶ Review of an application for Recognition by Association of Governmental Risk Pools, composed of several hundred self-insured pools across the United States including eleven in Texas. Recognition is achieved by a comprehensive review of Fund policies, procedures, and processes evaluated by a peer review group at Association of Governmental Risk Pools

## FUND ADMINISTRATOR MEASURES

The Fund Administrator carries out additional measures as follows:

- ▶ Reinsurance program design and marketing,
- ▶ Claims monitoring by member,
- ▶ Rate setting based on actuarial reports, claims history, and maintaining the financial strength of the Fund

# TWCARMF SAFETY AWARDS • - - - →

What began in 1988 with the purpose of putting TWCA members in control of their insurance and risk management is now in its 35th year of operation. As many of you can attest, the Fund not only provides stability in coverage and rates but works with our members to develop quality safety and loss prevention programs that enrich our members' operations. It's rewarding to see that each year the bar for the Fund's award recognition gets set even higher as Fund members' safety records continue to improve. The Fund recognizes several members for their success in loss prevention and commend members for providing safe work environments for their employees.

Two of the awards (Outstanding Safety in Liability and the Leroy Goodson Excellence in Risk Management), recognize members' attention to liability issues which frequently affect the general public. The Fund Board and staff commend all of these members for their accomplishments. The awards and winners in all categories are:

## Outstanding Safety Record in Liability



This award recognizes the member with the best liability loss history in General Liability, Automobile Liability and Errors & Omissions. With a combined underwriting factor of 0.68.

**The winner in this category is:**

**Gulf Coast Authority**

## Most Improved Safety Record in Liability



Experience modifiers are one of the best indicators of the effectiveness of an organization's safety program. This award recognizes those members who achieved the most improvement in their General Liability, Automobile Liability, and Errors & Omissions liability record experience modifier this year.

**The winner in this category is:**

**North Texas Municipal Water District**

## Outstanding Safety Record in Workers' Compensation



This recognition is awarded to those members that have sustained the best experience in reducing employee injuries as reflected by their experience modifier over the past four years.

**The winner in this category is:**

**Guadalupe-Blanco River Authority**

## Most Improved Safety Record in Workers' Compensation



Experience modifiers are one of the best indicators of the effectiveness of an organization's safety program. This award recognizes those members who achieved the most improvement in their workers' compensation experience modifier this year.

**The winner in this category is:**

**Hidalgo County Irrigation #1**

## Leroy Goodson Excellence in Risk Management Award



The Fund Board named our top annual award after TWCA's previous general manager who led the effort to create the risk management fund and served as our Board Secretary for 28 years.

This award recognizes the Fund member for achieving excellent experience in both workers' compensation and liability over the past four years.

**This year, The Fund's most prestigious award, the Leroy Goodson Excellence in Risk Management Award goes to:**

**San Jacinto River Authority**





## Risk Management Fund

TWCA RISK MANAGEMENT FUND  
P.O. BOX 26655  
AUSTIN, TEXAS 78755-0655

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