Texas Association of School Boards Risk Management Fund

Financial Statements as of and for the Years Ended
August 31, 2022 and 2021, and
Report of Independent Auditors

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RISK
FUND

TEXAS ASSOCIATION OF SCHOOL BOARDS
RISK MANAGEMENT FUND

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Independent Auditor's Report

The Board of Trustees
Texas Association of School Boards Risk Management Fund

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of the Texas Association of School Boards Risk Management Fund (the Fund), which comprise the statement of net position as of August 31, 2022, 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, based our audit, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Texas Association of School Boards Risk Management Fund, as of August 31, 2022, and the respective changes in net position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors
The financial statements of the Fund as of and for the year ended August 31, 2021 were audited by another auditor, who expressed an unmodified opinion on those statements on November 4, 2021.

Basis for Opinions
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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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.

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 opinions. 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 Management's Discussion and Analysis on pages 3 - 9, the ten-year claims development information and reconciliation of unpaid claims and claim adjustment expense liability by type of contract schedules on pages 24 - 28, 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 and other auditors 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.

Johnson Lambert LLP

Burlington, Vermont
November 1, 2022
Vermont registration 092-0000267

MANAGEMENT'S DISCUSSION AND ANALYSIS
Texas Association of School Boards Risk Management Fund
Year Ended August 31, 2022 (Unaudited)
(See Report of Independent Auditors)

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, 2022.

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) required supplementary information. The financial statements present the results of operations from the following Fund programs: Workers' Compensation, Auto, Property, Liability and Unemployment Compensation.

Financial Highlights

Assets exceeded Fund liabilities at August 31, 2022, by $233.3 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 called for the use of Members' Equity to support operations for the year. Net position decreased by $19.6 million during the 2021-2022 fiscal year. The decrease to $233.3 million was primarily due to unrealized losses in our investment portfolio due to unfavorable market conditions. However, the Fund's investment portfolio continues to generate a steady source of income on which the Fund relies to support its operations.

Operating results for this fiscal year were particularly strong. The combination of increases in total contributions along with decreases in net incurred losses helped to offset the volatility in the financial marketplace, 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, and Liability. 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 11.

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 12.

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 claim development. Analysis of trends in claims development indicates whether losses are increasing, decreasing, or remain constant.

Financial Analysis for the Fund

***The Statements of Net Position** – As of August 31, 2022, 2021, and 2020*

Comparative Condensed Statements of Net Position
As of August 31, 2022, 2021, and 2020

	2022	2021	2020
Assets:			
Cash and investments	$ 372,568,667	$ 377,427,702	$ 367,731,073
Other current assets	17,283,331	47,187,049	13,251,578
Long-term assets	154,979	203,419	255,758
Total Assets	$ 390,006,977	$ 424,818,170	$ 381,238,409
Liabilities and equity:			
Current liabilities	$ 88,057,041	$ 98,167,559	$ 95,661,355
Long-term liabilities	68,689,398	73,780,984	66,057,531
Total Liabilities	156,746,439	171,948,543	161,718,886
Net Position:			
Members' Equity (Unrestricted)	233,260,538	252,869,627	219,519,523
Total liabilities and net position	$ 390,006,977	$ 424,818,170	$ 381,238,409

Cash and Investments

The Fund carried cash, cash equivalents and investments of $372.6 million, $377.4 million, $367.7 million on August 31, 2022, 2021, and 2020. 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 decrease during 2021-2022 is due to unrealized losses in the investment portfolio due to unfavorable market conditions experienced for most of the fiscal year. The increase during 2020-2021 was primarily due to increased contribution revenue, steady investment income, and solid realized and unrealized gains in the investment portfolio due to favorable market conditions, which offset an increase in net incurred losses for the year.

Other Current Assets

Other current assets primarily consist of contributions receivable, stop loss coverage receivable, and accrued interest receivable. The fluctuation during the 2021-2022 fiscal year is due to the decrease of stop loss coverage receivable of $31.3 million. The decrease is a result of collections received from reinsurers as payments for losses that exceeded the Fund's specific retention for claims experienced during Winter Storm

Uri and the spring hail storm season. The majority of the fluctuation during the 2020-2021 fiscal year is due to the increase of stop loss coverage receivable of $32.8 million. The significant increase is a direct result of the Fund's losses for Winter Storm Uri being capped at $7.5 million for one event; therefore, paid losses in excess of this specific retention is 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. The primary driver of the fluctuation during 2022 is due to the decrease in reserves as a result of lower claims losses in the property program. The majority of the fluctuation during the 2020-2021 fiscal year is due to the increase in accrued expenses and other liabilities of $7.2 million, reserves for losses and LAE of $3.1 million, and unearned contributions-net of prepaid stop loss premiums of $3.0 million which is offset by a decrease in unemployment compensation (UC) claims payable of $11.0 million.

Reserves

Reserves for losses and loss adjustment expenses were approximately $112.9 million, $128.5 million, and $117.7 million at August 31, 2022, 2021, and 2020. During 2021-2022, actuarial projected reserves decreased by $15.6 million due to decreased claim losses in the property program. Actuarial projected reserves increased by approximately $10.8 million during 2020-2021. The majority of this increase is due to increased claim losses in the property program, including the Fund's loss from Winter Storm Uri at $7.5 million.

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 3% as of August 31, 2022 and 4% as of August 31, 2021 and 2020. The reserve discount as of August 31, 2022, 2021, and 2020, was $10.5 million, $12.2 million, and $12.7 million.

Net Position – Members' Equity

Net Position (Members' Equity) decreased by approximately $19.6 million during 2021-2022, increased by $33.4 million during 2020-2021, and increased by $16.0 million during 2019-2020. Unrealized losses in our investment portfolio due to unfavorable market conditions is the primary driver for the decrease in net position for 2021-2022. The increase during 2020-2021 was primarily due to increases in gross contributions earned, and realized and unrealized gains in our investment portfolio due to favorable market conditions.

As of August 31, 2022, 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 $233.3 million.

The Statements of Revenue, Expenses and Changes in Net Position *– Fiscal years ended August 31, 2022, 2021, and 2020*

Comparative Condensed Statements of
Revenues, Expenses and Changes in Net Position
For the Years Ended August 31, 2022, 2021, and 2020

	2022	2021	2020
Operating revenues:			
Gross contributions earned	$ 160,539,076	$ 147,936,800	$ 123,810,817
Other revenue	701,742	419,136	396,904
Stop-loss and reinsurance premiums	(33,820,700)	(24,817,477)	(19,536,783)
Net operating revenues	127,420,118	123,538,459	104,670,938
Non-operating revenues:			
Investment income – net of expenses	9,320,558	9,478,612	11,087,329
Realized and change in unrealized gains (losses) from investments	(52,114,741)	19,487,431	11,389,348
Net non-operating revenue	(42,794,183)	28,966,043	22,476,677
Total revenues	84,625,935	152,504,502	127,147,615
Operating expenses:			
Net incurred losses	59,086,571	73,719,489	60,744,244
Administrative and other expenses	45,148,453	45,434,909	50,406,932
Total operating expenses	104,235,024	119,154,398	111,151,176
Change in net position	(19,609,089)	33,350,104	15,996,439
Members' Equity -- Beginning of the year	252,869,627	219,519,523	203,523,084
Members' Equity -- End of year	$ 233,260,538	$ 252,869,627	$ 219,519,523

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, 2022, 2021, and 2020, the Fund reported earned contributions and Administrative-Services-Only (ASO) fees of $160.5 million, $147.9 million, and $123.8 million. Total contributions increased in 2022 as a result of a combination of increases in contribution rates and exposure in most of the Fund's programs, with the exception of unemployment compensation wherein a decrease in expected losses called for lower rates for the year.

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, 2022, 2021, and 2020, the Fund reported net operating revenue of $127.4 million, $123.5 million, and $104.7 million. For 2022, net operating revenue increased primarily due to the increase in contributions for most of the Fund's programs, except for unemployment compensation. Net operating revenue increased in 2021 primarily due to the increase of contributions for all program lines.

The Fund continues to operate in a challenging market environment. After weathering years of severe losses in the Property program and challenges in maintaining Workers' Compensation membership, this year's renewal strategy continued the Fund's comprehensive coverage approach. The Fund's laser focus on Texas public schools gives underwriting staff unique insight into the risks facing members. Through the Fund's relationship with the Texas Association of School Boards, Inc. (TASB), staff has access to additional insight about current and prospective members that other providers do not. As a result, membership renewal rates remain above 95% across all lines of coverage. Contributions for the Fund's programs, except for unemployment compensation which was expected to decrease by 20% as a result of lower expected losses, were expected to increase 3.7% due to rate increases, but actually increased over 8% primarily because of higher exposures in the Property program.

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

Investment income continues to contribute 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 on a monthly basis. The Fund reports realized and unrealized gains or losses from investments as a component of the results from operations. The Fund earned $9.3 million in investment income (net of fees) for the year ended August 31, 2022, compared to $9.5 million for the year ended August 31, 2021, and to $11.1 million for the year ended August 31, 2020. For the years ended August 31, 2022, 2021, and 2020, the Fund recognized an unrealized net loss of $56,453,302 and a net gain of $3,586,533, and $10,988,806, 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, 2022, 2021, and 2020, total expenses were $104.2 million, $119.2 million, and $111.2 million, respectively. The decrease during the 2021-2022 fiscal year is due to the decrease in net incurred losses, specifically related to the property program. During the 2020-2021 fiscal year, the increase resulted from an increase in net incurred losses for the Property program mainly due to Winter Storm Uri.

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 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 $29.4 million, $30.2 million, and $30.1 million as of August 31, 2022, 2021, and 2020, 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, 2022 and $1.8 million as of August 31, 2021 and 2020, and is reported as sponsorship fees.

TEXAS ASSOCIATION OF SCHOOL BOARDS
RISK MANAGEMENT FUND

STATEMENTS OF NET POSITION
AS OF AUGUST 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,229,586	$ 16,430,852
Mutual funds	67,324,323	70,314,269
Fixed income securities	8,528,874	1,704,361
Contributions receivable	9,624,322	8,815,159
Stop loss coverage receivable	4,777,579	36,108,343
Accrued interest receivable	1,567,411	1,538,679
Prepaid expenses and other assets	1,314,019	724,868
Total current assets	122,366,114	135,636,531
Non-current assets:		
Fixed income securities	267,485,884	288,978,220
Other assets	154,979	203,419
Total non-current assets	267,640,863	289,181,639
TOTAL ASSETS	$ 390,006,977	$ 424,818,170
LIABILITIES AND NET POSITION		
Current liabilities:		
Reserve for losses and LAE at estimated net present value	$ 44,168,243	$ 54,747,609
Unemployment compensation claims payable	1,783,605	1,093,448
Unearned contributions - net of prepaid stop loss premiums	24,185,207	25,925,408
Checks payable on losses	3,688,164	2,507,070
Accrued expenses and other liabilities	14,231,822	13,894,024
Total current liabilities	88,057,041	98,167,559
Non-current liabilities:		
Reserve for losses and LAE at estimated net present value	68,689,398	73,780,984
Total non-current liabilities	68,689,398	73,780,984
Total liabilities	156,746,439	171,948,543
Net Position:		
Members' Equity (Unrestricted)	233,260,538	252,869,627
TOTAL LIABILITIES AND NET POSITION	$ 390,006,977	$ 424,818,170

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, 2022 AND 2021

	2022	2021
OPERATING REVENUES:		
Member contributions	$ 157,682,573	$ 145,662,243
Administrative-service-only fees	2,856,503	2,274,557
Other revenue	701,742	419,136
Stop-loss and reinsurance premiums	(33,820,700)	(24,817,477)
Net operating revenue	127,420,118	123,538,459
OPERATING EXPENSES:		
Claims expense	73,111,303	222,837,457
Reinsurance recoveries	(14,024,732)	(149,117,968)
Net incurred losses	59,086,571	73,719,489
Unemployment compensation claim reimbursements	7,222,440	9,236,929
Program administrative fees	29,440,996	30,197,407
General and administrative	5,858,474	3,828,045
Contract service fees	181,770	154,883
Sponsorship and royalties	2,444,773	2,017,645
Total operating expenses	104,235,024	119,154,398
OPERATING (LOSS) INCOME	23,185,094	4,384,061
NON-OPERATING REVENUES:		
Investment income — Net of expenses	9,320,558	9,478,612
Realized and change in unrealized gains (losses) from investments	(52,114,741)	19,487,431
NON-OPERATING REVENUE, NET	(42,794,183)	28,966,043
CHANGE IN NET POSITION	(19,609,089)	33,350,104
NET POSITION:		
Members' Equity (Unrestricted) Beginning of year	252,869,627	219,519,523
Members' Equity (Unrestricted) End of year	$ 233,260,538	$ 252,869,627

See notes to financial statements.

TEXAS ASSOCIATION OF SCHOOL BOARDS
RISK MANAGEMENT FUND

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash from members	$ 157,989,712	$ 149,843,557
Cash from reinsurers	78,415,551	32,963,051
Claims paid, including unemployment compensation claims	(127,193,499)	(148,757,193)
Cash paid to reinsurers	(34,361,411)	(24,934,952)
Cash paid to vendors and TASB	(35,481,240)	(34,180,335)
Cash paid in royalties	(2,444,773)	(2,017,645)
Cash from other revenue	1,039,540	7,649,722
Net cash provided by (used in) operating activities	37,963,880	(19,433,795)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(132,613,757)	(183,823,138)
Proceeds from sales and maturities of investments	98,156,785	188,709,419
Investment income	9,291,826	9,642,993
Net cash (used in) provided by investing activities	(25,165,146)	14,529,274
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,798,734	(4,904,521)
CASH AND CASH EQUIVALENTS:		
Beginning of year	16,430,852	21,335,373
End of year	29,229,586	16,430,852
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	23,185,094	4,384,061
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
(Increase) in contributions receivable	(809,163)	(1,098,503)
Decrease (increase) in stop-loss coverage receivable	31,330,764	(32,831,536)
(Increase) in prepaid expenses and other assets	(540,711)	(117,475)
(Decrease) increase in unearned contributions, net of stop-loss premiums	(1,740,201)	3,005,260
Increase in checks payable on losses	1,181,094	115,525
(Decrease) increase in reserve for losses and loss adjustment expenses at estimated net present value	(15,670,952)	10,831,700
Increase (decrease) in unemployment compensation claims payable	690,157	(10,953,413)
Increase in accrued expenses and other liabilities	337,798	7,230,586
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 37,963,880	$ (19,433,795)

See notes to financial statements.

1. GENERAL STATEMENT

The Texas Association of School Boards Risk Management Fund (the "Fund") is a public entity risk-sharing pool composed of five separate fund programs, which were established by members of the Texas Association of School Boards, Inc. (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, 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 1,040 school districts, education service centers, cooperatives, and community colleges participate in one or more of the Fund's programs.

The Fund is composed of five programs: Workers' Compensation, Auto, Liability, 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 — Contribution's 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.

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 does not consider anticipated investment income. On August 31, 2022 and 2021, a contribution deficiency for the Fund did not exist.

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 less than 90 days at date of purchase as cash and cash equivalents.

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, and property programs. Unemployment compensation claims payable represent the April, May, June, 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 $14,172,363 and $16,665,475 for the years ended August 31, 2022 and 2021, 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.

Other Revenue — Other revenue consists primarily of revenue from the Texas Municipal League Intergovernmental Risk Pool (TML-IRP) for preauthorization and medical review services provided by the Fund.

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 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 only the workers' compensation program. Total undiscounted reserves (i.e., case-basis reserves plus incurred but not reported (IBNR) reserves) for all lines of business were $123,326,655 and $140,743,344 on August 31, 2022 and 2021, respectively. Total net discounted reserves (i.e., case-basis reserves plus IBNR reserves) on August 31, 2022 and 2021, totaled $112,857,641 and $128,528,593, 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.

Subsequent Events – The Fund has evaluated subsequent events for disclosure and recognition through November 1, 2022, 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 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, 2022 and 2021, the Fund recognized an unrealized net loss of $56,453,302 and a net gain of $3,586,533, 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, 2022:				
U.S. government obligations	$ 68,993,424	$ -	$ (5,452,958)	$ 63,540,466
U.S. government agency obligations	10,531,278	-	(881,495)	9,649,783
Corporate debt securities	116,356,303	114,966	(11,028,933)	105,442,336
Mortgage-backed securities	109,992,942	7,790	(12,618,559)	97,382,173
Equity securities	54,382,800	14,368,434	(1,426,911)	67,324,323
	$ 360,256,747	$ 14,491,190	$ (31,408,856)	$ 343,339,081
August 31, 2021:				
U.S. government obligations	$ 60,199,264	$ 509,102	$ (718,387)	$ 59,989,979
U.S. government agency obligations	10,523,788	515,706	(6,070)	11,033,424
Corporate debt securities	105,821,710	5,970,317	(498,548)	111,293,479
Mortgage-backed securities	106,801,056	2,090,314	(525,671)	108,365,699
Equity securities	38,115,396	32,198,873	-	70,314,269
	$ 321,461,214	$ 41,284,312	$ (1,748,676)	$ 360,996,850

Deposits — Demand deposits at August 31, 2022 and 2021 are $332,379 and $1,801,021, respectively. At August 31, 2022 and 2021, $28,897,207 and $14,629,831, respectively, is held in money market accounts, invested with Dreyfus or held by Principal Custody Solutions, the Fund's investment custodian, to invest by Conning, Inc., the Fund's investment manager.

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, concentration of credit risk, and foreign currency 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, 2022 and 2021, 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.

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, 2022 and 2021, 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.

The fair value of investments at August 31, 2022 and 2021 are shown below by contractual maturity using the segmented time distribution method. 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, 2022	August 31, 2021
Due in one year or less:		
Corporate debt securities	$ 4,850,839	$ 702,541
U.S. government agency obligations	3,678,035	1,001,820
Total due in one year or less	8,528,874	1,704,361
Due after one year through five years:		
U.S. government obligations	49,026,466	40,410,754
U.S. government agency obligations	479,670	4,296,063
Mortgage-backed securities	812,281	90,470
Corporate debt securities	49,862,988	51,077,051
Total due after one year through five years	100,181,405	95,874,338
Due after five years:		
U.S. government obligations	14,514,000	19,579,225
U.S. government agency obligations	5,492,078	5,735,541
Mortgage-backed securities	96,569,892	108,275,229
Corporate debt securities	50,728,509	59,513,887
Total due after five years	167,304,479	193,103,882
Total fixed income securities	276,014,758	290,682,581
Equity securities	67,324,323	70,314,269
Total equity securities	67,324,323	70,314,269
Total fixed income securities and equity securities	$ 343,339,081	$ 360,996,850

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. US government or obligations explicitly guaranteed by the US 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, 2022 and 2021, for each investment type.

	August 31, 2022		August 31, 2021	
	Fair Value	S&P Rating	Fair Value	S&P Rating
U.S. government obligations	$ 63,540,466	NA	$ 59,989,979	NA
U.S. government agency obligations	9,649,783	AAA - A-	11,033,424	AAA - A-
Corporate debt securities	28,321,229	AA+ - A-	25,901,728	AA+ - A-
Corporate debt securities	72,380,707	BBB+ - B-	80,021,407	BBB+ - B-
Corporate debt securities	4,740,400	NA	5,370,344	NA
Mortgage-backed securities	4,440,674	AAA - A-	4,311,628	AAA - A-
Mortgage-backed securities	1,700,949	BBB+ - B-	1,977,557	BBB+ - B-
Mortgage-backed securities	91,240,550	NA	102,076,514	NA
	$ 276,014,758		$ 290,682,581	

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, 2022 and 2021, 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.

The following table sets forth by level, within the fair value hierarchy, the Fund's investments at fair value as of August 31, 2022 and 2021:

	in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Totals
August 31, 2022:				
U.S. government obligations	$ 63,540,466	$ -	$ -	$ 63,540,466
U.S. government agency obligations	-	9,649,783	-	9,649,783
Corporate debt securities	-	105,442,336	-	105,442,336
Mortgage-backed securities	-	97,382,173	-	97,382,173
Equity securities	67,324,323	-	-	67,324,323
	$ 130,864,789	$ 212,474,292	$ -	$ 343,339,081
August 31, 2021:				
U.S. government obligations	$ 59,989,979	$ -	$ -	$ 59,989,979
U.S. government agency obligations	-	11,033,424	-	11,033,424
Corporate debt securities	-	111,293,479	-	111,293,479
Mortgage-backed securities	-	108,365,699	-	108,365,699
Equity securities	70,314,269	-	-	70,314,269
	$ 130,304,248	$ 230,692,602	$ -	$ 360,996,850

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, 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, 2022 and 2021, stop loss recoverable of $61,331,578 and $94,391,634, respectively, have been deducted from the reserve for losses and loss adjustment expenses. During 2021-2022, stop loss recoverable decreased significantly primarily because of higher retention limits in the Fund's property reinsurance program at the time of renewal. As of August 31, 2022 and 2021, the Fund has also recorded stop-loss reimbursements receivable of $4,777,579 and $36,108,343, 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 uncollectable by management. Management evaluated the creditworthiness of its reinsurers and determined that no valuation allowance was required as of August 31, 2022 and 2021

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, overall 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 $29,440,996 and $30,197,407 for such services for each of the years ended August 31, 2022 and 2021, respectively. As of August 31, 2022 and 2021, the amount paid is net of a receivable for $1,021,011 and $432,300, respectively, for overpayment of the TASB administrative fee for the 2021-2022 fiscal year. This receivable, which is reported in Prepaid Expenses and Other Assets, is expected to be paid in full in November 2022.

- 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 and $1,800,000 in these fees to TASB for the years ended August 31, 2022 and 2021, respectively.

7. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Management establishes a liability for losses 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 2022 and 2021, a discount rate of 3% and 4%, respectively, has been used in the calculation, resulting in discounts for the workers' compensation program of $10,469,014 and $12,214,751, respectively.

The following schedule represents changes in reserves for losses during the years ended August 31, 2022 and 2021. This schedule indicates that overall, during the 2021-22 fiscal year, the Fund experienced a decrease in current year losses. This resulted from decreased claim activity in the Property line of business.

	Changes in Reserve	
	Year Ended August 31, 2022	Year Ended August 31, 2021
Reserve for losses and LAE - beginning of fiscal year	$ 128,528,593	$ 117,696,893
Net incurred claims and claim adjustment expenses:		
Provision for covered events of the current fiscal year	76,005,574	89,426,297
Decrease in provision for covered events of prior fiscal years	(18,664,740)	(16,197,122)
Change in estimated future investment income	1,745,737	490,314
Net incurred claims and claim adjustment expenses	59,086,571	73,719,489
Net payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	30,471,502	32,204,103
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	44,286,021	30,683,686
Net payments	74,757,523	62,887,789
Reserve for losses and LAE - end of fiscal year	$ 112,857,641	$ 128,528,593

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