

SCHOOLS EXCESS LIABILITY FUND

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED JUNE 30, 2023 AND 2022

SCHOOLS EXCESS LIABILITY FUND

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors and Members
Schools Excess Liability Fund
Sacramento, California**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Schools Excess Liability Fund (SELF) as of and for the years ended June 30, 2023, and 2022, and the related notes to the financial statements, which collectively comprise SELF's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SELF as of June 30, 2023, and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 SELF 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the SELF'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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 SELF'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 SELF's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, reconciliation of claims liabilities by type of contract, claims development information, schedule of the Authority's proportionate share of the net pension liability, and schedule of contributions on pages 4-9 and 30-35 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SELF's basic financial statements. The accompanying combining statements of net position and revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position and revenues, expenses, and changes in net position are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, on our consideration of SELF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SELF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SELF's internal control over financial reporting and compliance.

Gilbert CPAs

**GILBERT CPAs
Sacramento, California**

December 8, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schools Excess Liability Fund

Management's Discussion and Analysis

Fiscal Year 2023 and 2022



Schools Excess Liability Fund (SELF) was established March 1, 1986 by a Joint Powers Agreement to provide mutual risk pooling for public educational agencies in California. Under such an agreement, two or more public agencies may jointly exercise any power common to the contracting parties. SELF has two programs, the Excess Liability (XL) Program, with coverage from 1989 through today, and the Excess Workers' Compensation (XCW) Program, with coverage on claims incurred between July 1, 1989 and June 30, 2010.

SELF is a public agency which exists to serve our members and the students they represent. For financial reporting purposes, SELF operates as a special-purpose government engaged in business type activities. SELF is governed by an elected Board of Directors and alternates from six K-12 regions across California, two community college regions, and two ex-officio members representing the Department of Education and the Chancellor of Community Colleges Office. The Board of Directors elects a Chair, Vice Chair, Secretary, and Comptroller for a two-year term from the members of the Board of Directors. SELF also has an Executive Committee comprised of SELF Board Officers, including the Past Chair, and the Chairs of dedicated committees for Finance, Member Services & Communications, Liability Claims & Coverage, and Workers' Compensation Claims & Coverage. The Board of Directors is responsible for the ongoing operations of SELF and is empowered to implement and enforce all provisions of the Joint Powers Agreement, the SELF Bylaws, and all approved policies and procedures.

Mission Statement

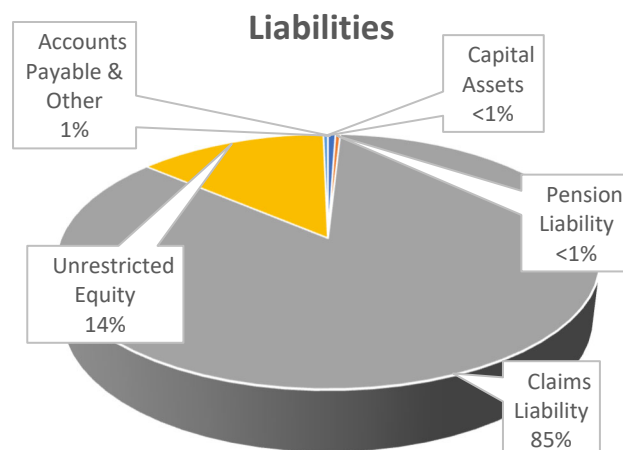
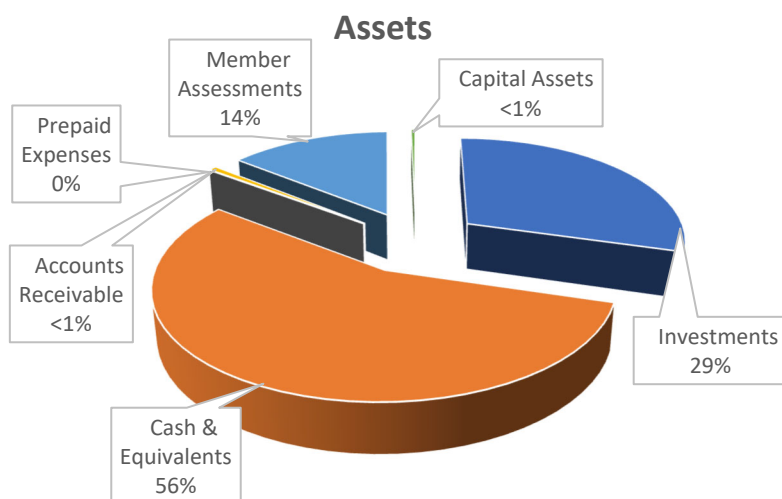
SELF is a member-owned, statewide partnership of public educational agencies providing quality pooled programs for excess coverage that benefit our students.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis; basic financial statements, and supplementary information.

The basic financial statements include the Statement of Net Position, Statement of Revenues, Expenses and Change in Net Position, and Statement of Cash Flows, for the combined operations of SELF for the fiscal years ended June 30, 2023 and 2022. The notes to the basic financial statements are an integral part of the basic financial statements and provide details on SELF membership, accounting policies, claims liabilities, and other information in the statements.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as presented in the table of contents, be presented to supplement the basic financial statements and other supplementary information such as combining financial statements for the fiscal year ended June 30, 2023 and 2022.



Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2023 and 2022

Financial Highlights – Statement of Net Position:

The Statement of Net Position shows the balances in assets, deferred outflows of resources, liabilities, and deferred inflows of resources, by program separated by current, long-term, and capital assets. Investments, cash and cash equivalents account for 85% of all assets. Total investments, cash & cash equivalents have increased 32%.

The majority of assets are held to fund the claims liabilities, which account for 99% of all liabilities. Total claims liabilities have increased 20% from June 30, 2022. As of June 30, 2023, 15% of all claim liabilities were current, or expected to be due within one year, while the majority is expected non-current due to the nature of excess risk pooling.

SELF currently owns a building located at 1531 I Street, in downtown Sacramento, CA, which represents less than 1% of all assets. SELF has no long-term debt other than the reserved claims liabilities, claims administration expenses, and the net pension obligation, recorded in compliance with GASB 68, based on the CalPERS Accounting Valuation Report, which is updated annually.

Schools Excess Liability Fund Statement of Net Position June 30, 2023, June 30, 2022, and June 30, 2021

	Combined Programs						
	<u>XL</u>	<u>XWC</u>	<u>Building</u>	<u>Elimination</u>	<u>2022/2023</u>	<u>2021/2022</u>	<u>2020/2021</u>
ASSETS							
Current Assets	\$154,484	\$ 29,484	\$ 802	\$ (50)	\$184,720	\$ 115,617	\$ 109,320
Non-current Assets	44,443	49,674	-	-	94,117	173,071	83,214
Capital Assets	38	1	873	-	912	992	1,108
Total Assets	<u>198,965</u>	<u>79,159</u>	<u>1,675</u>	<u>(50)</u>	<u>279,749</u>	<u>289,680</u>	<u>193,642</u>
Deferred Outflow of Resources	<u>497</u>	<u>209</u>	<u>-</u>	<u>-</u>	<u>706</u>	<u>246</u>	<u>242</u>
LIABILITIES							
Current Liabilities	31,895	4,387	14	(50)	36,246	46,480	28,280
Long-term Liabilities	<u>164,668</u>	<u>40,862</u>	<u>-</u>	<u>-</u>	<u>205,530</u>	<u>172,227</u>	<u>125,430</u>
Total Liabilities	<u>196,563</u>	<u>45,249</u>	<u>14</u>	<u>(50)</u>	<u>241,776</u>	<u>218,707</u>	<u>153,710</u>
Deferred Inflow of Resources	<u>64</u>	<u>40</u>	<u>-</u>	<u>-</u>	<u>104</u>	<u>178</u>	<u>5</u>
NET POSITION							
Invested in Capital Assets	38	1	873	-	912	992	1,108
Undesignated	<u>2,797</u>	<u>34,078</u>	<u>788</u>	<u>-</u>	<u>37,663</u>	<u>70,050</u>	<u>39,061</u>
Total Net Position	<u>\$ 2,835</u>	<u>\$ 34,079</u>	<u>\$ 1,661</u>	<u>\$ -</u>	<u>\$ 38,575</u>	<u>\$ 71,042</u>	<u>\$ 40,169</u>

*Please note, amounts in thousands, may not foot and/or may vary from audited financial statements due to rounding.

Financial Highlights – Statement of Revenues, Expenses & Change in Net Position:

The Statement of Revenues, Expenses & Change in Net Position shows the activity of SELF from July 1, 2022 through June 30, 2023 for the Excess Liability Program (XL), Excess Workers' Compensation Program (XWC), and Building Fund, and a comparison with the prior fiscal year's audited financial statements. There are four basic parts to this statement: Operating revenues, Program expenses, General and Administrative expenses, and Non-operating revenues and expenses.

Operating revenues include the general Member Contributions by SELF's members for financing pool-funding requirements and Member Assessments. Excess Liability Member Contributions increased 13% from the prior year. For the year ending June 30, 2022, a member assessment of \$96.6 million was approved by the Board of Directors to fund liabilities associated with law – AB 218. No assessment was declared for the year ending June 30, 2023. There were no member contributions for the Excess Workers Compensation program, as it is closed. Rental income for the Building Fund is recorded under Non-Operating revenues.

Schools Excess Liability Fund

Management's Discussion and Analysis

Fiscal Year 2023 and 2022

Program expenses are expenses directly related to the program's main function, such as claims indemnity, claim expenses, and reinsurance or excess insurance, accounting for 97% of all expenditures, these were 2% less than the prior year. While member contributions and reinsurance expense are for the fiscal year ended June 30, 2023, the claims and claims adjustment expenses included expenses for new claim reserves, actuarial adjustments, and payments on claims from prior years.

General and Administrative expenses are costs to manage and maintain each program, including in-house claims management, and indirect costs, such as actuarial reports, claims audits, and audit fees, which are required by law. General and Administrative expenses were 3% of total expense and increased 1% from the prior fiscal year.

Non-operating revenues and expenses are income and/or costs not directly related to the operation of the programs, including rental and investment income or loss. They are reported in a separate section to comply with GASB 34, allowing financial statement users to see the true operating income or loss before any additional or non-typical items are included. SELF receives rental income from tenants at our property at 1531 I Street, Sacramento, CA and investment income on retained equity in both the Excess Liability and Excess Workers' Compensation Programs. Net Investment Income, which includes interest received and changes in the market value of investments, realized a net loss for the fiscal year.

Schools Excess Liability Fund

Statement of Revenues, Expenses & Change in Net Position

For the Years Ended June 30, 2023, June 30, 2022 and June 30, 2021

	Combined Programs				2022/2023	2021/2022	2020/2021
	XL	XWC	Building	Elimination			
Operating Revenue:							
Member Contributions	\$ 54,591	\$ -	\$ -	\$ -	\$ 54,591	\$ 48,321	\$ 44,292
Member Assessments	-	-	-	-	-	96,639	-
Total Operating Revenues	<u>54,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,591</u>	<u>144,960</u>	<u>44,292</u>
Program Expenses:							
Provision for Claims & Claims Adj.	83,331	(5,270)	-	-	78,061	68,705	17,385
Commercial Reinsurance Premiums	27,366	-	-	-	27,366	39,099	17,930
Total Program Expenses	<u>110,697</u>	<u>(5,269)</u>	<u>-</u>	<u>-</u>	<u>105,427</u>	<u>107,804</u>	<u>35,316</u>
General & Administrative Expense	<u>2,501</u>	<u>496</u>	<u>249</u>	<u>(144)</u>	<u>3,102</u>	<u>2,468</u>	<u>2,765</u>
Total Operating Expenses	<u>113,198</u>	<u>(4,773)</u>	<u>249</u>	<u>(144)</u>	<u>108,530</u>	<u>110,272</u>	<u>38,081</u>
Operating Income (Loss)	<u>(58,607)</u>	<u>4,773</u>	<u>(249)</u>	<u>144</u>	<u>(53,939)</u>	<u>34,688</u>	<u>6,212</u>
Non-Operating Income / Expense:							
Rental Income	-	-	221	(144)	77	189	238
Interest Income	2,293	207	14	-	2,514	(4,451)	42
Other Income	24	10	2	-	36	447	1
Total Non-operating Rev. (Exp.)	<u>2,317</u>	<u>217</u>	<u>237</u>	<u>(144)</u>	<u>2,627</u>	<u>(3,815)</u>	<u>281</u>
Change in Net Position	<u>(56,290)</u>	<u>4,990</u>	<u>(12)</u>	<u>-</u>	<u>(51,312)</u>	<u>30,873</u>	<u>6,493</u>
Net Position, Beginning Balance	40,279	29,090	1,673	-	71,042	40,169	33,676
Prior Period Adjustment	<u>18,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,846</u>	<u>-</u>	<u>-</u>
Net Position, Ending Balance	<u>\$ 2,835</u>	<u>\$ 34,080</u>	<u>\$ 1,661</u>	<u>\$ -</u>	<u>\$ 38,576</u>	<u>\$ 71,042</u>	<u>\$ 40,169</u>

*Please note, amounts in thousands, may not foot and/or may vary from audited financial statements due to rounding.

Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2023 and 2022

Individual Program Overview:

Excess Liability:

The Schools Excess Liability Fund (SELF) was established with the Excess Liability (XL) Program. In November 1985, a group of concerned school business officials met and formed a steering committee to determine the feasibility of establishing a statewide school excess liability pool. They wanted to combat the growing liability insurance crisis and provide public educational agencies with a stable and broad liability coverage product. SELF began offering excess liability coverage March 1, 1986. In 2022/2023, SELF had 557 K-12 and Community College members across the state of California.

In 2022/2023, SELF provided excess liability coverage for claims up to \$55 million, after member's attachment according to their retained limits, through a combination of self-insurance and reinsurance. SELF members have retained limits of \$1 million or \$5 million. Program rates were increased in 2022/23 to continue to address the escalating legal liability and legislative trends statewide, including the passage of AB 218.

As of June 30, 2023, the Excess Liability Program has \$158.7 million in cash and investments available to fund claims, a 49% increase from June 30, 2022. Actual claims paid in 2022/2023 were \$36.6 million and reserves increased \$67.2 million, while the incurred but not reported decreased \$18.7 million. The program has experienced increased claim frequency and severity which permeated the self-insured layer after years of relatively stable loss development. Further, the claims reserve increase was driven exclusively by AB 218 liabilities.

Excess Workers' Compensation:

July 1, 1989, SELF launched the Excess Workers' Compensation (XWC) Program, which closed after the June 30, 2010 fiscal year. The program had 50 members during its tenure, with member retentions of \$250,000 to \$2 million. SELF purchased excess workers' compensation insurance for all policy years, with self-insured retentions of \$1 million to \$2 million. SELF continues to manage the runoff of workers' compensation claims incurred between July 1, 1989 and June 30, 2010.

As of June 30, 2023, the Excess Workers' Compensation Program has \$78.8million in cash and investments available to fund claims, a 0.6% increase from June 30, 2022. In 2022/2023, the program realized a reduction of \$6.9 million in combined claims reserves and incurred but not reported (IBNR) claims liability and unallocated loss adjustment expense (ULAE).

Open claims were reduced from 208 to 180. This positive trend is a reflection of the efforts SELF has made, in concert with its members, to close open claims and salvage reserves within the XWC Program's layers and to assist members in settling claims prior to piercing these layers.



Schools Excess Liability Fund

Management's Discussion and Analysis

Fiscal Year 2023 and 2022

Non-Operating Revenue:

Rental Income:

SELF owns and manages a building in downtown Sacramento, at 1531 I Street, Sacramento, California. The building was purchased in 1993 with retained equity and is considered an investment of SELF. Approximately 65% of the building is leased to long-term tenants. The balance is used as the SELF office for both the Excess Liability and Excess Workers' Compensation Programs. SELF maintains the building in order to protect and enhance the investment of our members. SELF also has a state-of-the-art conference center, which is available for use at no charge to any of our members.

Investments:

SELF has \$238.3 million in cash and investments, with \$82.4 million held in investment accounts, as of June 30, 2023. Approximately 65% was liquid in either bank accounts, the California Asset Management Program or the Local Agency Investment Fund. Investments are held in separate investment portfolios for the Excess Liability and Excess Workers' Compensation Programs. Each portfolio is managed based on the cash flow needs of the programs. Excess Workers' Compensation investments are generally invested longer term, due to the extended nature of these claims. Both portfolios are managed to maximize yields over time.

Budget versus Actual:

SELF's annual budget is reviewed by the Finance Committee and approved by the Board of Directors. Actual amounts for the fiscal year versus the adopted budget are included to show SELF's financial performance in relation to the annual plan for the programs. Member Contributions exceeded budget based on increases in membership. Program Expenses exceeded budgeted amounts due to a change in accounting which caused an increase in the claims incurred but not reported. General and Administrative Expenses were less than the budgeted amount due to unanticipated staff vacancies.

Budget vs. Actual For the Year Ended June 30, 2023

	Budget	Variance		
		Actual	Amount	Percent
Operating Revenues	\$ 47,832	\$ 54,591	\$ 6,759	14%
Program Expenses	(42,575)	(105,427)	(62,852)	148%
General & Administrative Expenses	(3,599)	(3,103)	496	-14%
Total Operating Income (Loss)	1,658	(53,939)	(55,597)	-3353%
Non-operating Revenue (Expense)	(584)	2,628	3,212	-550%
Change in Net Position	\$ 1,074	\$ (51,311)	\$ (52,385)	-4878%

Schools Excess Liability Fund Adopted Budget For the Years Ended June 30, 2023, June 30, 2022, and June 30, 2021

	XL	XWC	Building	2022/2023	2021/2022	2020/2021
Operating Revenues	\$ 47,624	\$ -	\$ 208	\$ 47,832	\$ 48,482	\$ 45,324
Program Expenses	(43,075)	500	-	(42,575)	(107,902)	(39,317)
General & Administrative Expense	(2,713)	(500)	(386)	(3,599)	(2,669)	(3,092)
Operating Income (Loss)	1,836	-	(178)	1,658	(62,089)	2,915
Total Non-operating Rev/(Exp)	(770)	185	1	(584)	(4,439)	1,604
Change in Net Position	\$ 1,066	\$ 185	\$ (177)	\$ 1,074	\$ (66,528)	\$ 4,519

**Schools Excess Liability Fund
Management's Discussion and Analysis
Fiscal Year 2023 and 2022**

Factors Bearing on the Future:

The Schools Excess Liability Fund's fiscal year 2023/2024 Operating Budget includes \$57.1 million in Revenue, \$48.5 million in program expense, \$4.1 million in General and Administrative Expenses, and \$.8 million in Non-Operating Expenses, for an increase in Net Position of \$5.3 million. It was reviewed by the Finance Committee on May 11, 2023 and approved by the Board of Directors on June 2, 2023.

FINANCIAL STATEMENTS

SCHOOLS EXCESS LIABILITY FUND

STATEMENTS OF NET POSITION JUNE 30, 2023 AND 2022

ASSETS	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 155,820,348	\$ 97,481,500
Investments	8,419,216	10,677,746
Accounts receivable:		
Interest and other	1,735,539	1,052,540
Member assessments receivable	18,714,073	6,346,278
Prepaid expenses	<u>32,007</u>	<u>59,442</u>
Total current assets	<u>184,721,183</u>	<u>115,617,506</u>
Noncurrent assets:		
Investments	74,077,125	73,059,592
Member assessments receivable	20,038,912	100,011,390
Capital assets, net	<u>912,372</u>	<u>992,318</u>
Total noncurrent assets	<u>95,028,409</u>	<u>174,063,300</u>
Total assets	<u>279,749,592</u>	<u>289,680,806</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>706,136</u>	<u>246,406</u>
 LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	1,505,113	394,442
Reinsurance payable		18,845,593
Other liabilities		26,370
Unpaid claims and claim adjustment expenses	<u>34,740,000</u>	<u>27,214,000</u>
Total current liabilities	<u>36,245,113</u>	<u>46,480,405</u>
Noncurrent liabilities:		
Net pension liability	956,902	173,978
Unpaid claims and claim adjustment expenses	<u>204,573,344</u>	<u>172,052,907</u>
Total noncurrent liabilities	<u>205,530,246</u>	<u>172,226,885</u>
Total liabilities	<u>241,775,359</u>	<u>218,707,290</u>
 DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>104,291</u>	<u>178,227</u>
 NET POSITION		
Net investment in capital assets	912,372	992,318
Unrestricted	<u>37,663,706</u>	<u>70,049,377</u>
Total net position	<u>\$ 38,576,078</u>	<u>\$ 71,041,695</u>

The accompanying notes are an integral part of these financial statements.

SCHOOLS EXCESS LIABILITY FUND

STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUE		
Member contributions	\$ 56,721,147	\$ 48,320,760
Member assessment		96,642,373
Less: discounts	<u>(2,130,440)</u>	<u>(3,018)</u>
Total operating revenues	<u>54,590,707</u>	<u>144,960,115</u>
OPERATING EXPENSES		
Provision for unpaid claims and claim adjustment expenses	78,060,846	68,705,301
Commercial reinsurance premiums	<u>27,365,901</u>	<u>39,098,891</u>
Total direct claims expenses	<u>105,426,747</u>	<u>107,804,192</u>
General and administrative expenses:		
Contract services	552,035	741,358
Personnel costs	1,872,235	986,038
Administrative expenses	483,912	532,082
Building	96,360	86,695
Depreciation	<u>98,171</u>	<u>122,141</u>
Total general and administrative	<u>3,102,713</u>	<u>2,468,314</u>
Total operating expenses	<u>108,529,460</u>	<u>110,272,506</u>
Operating income (loss)	<u>(53,938,753)</u>	<u>34,687,609</u>
NON-OPERATING REVENUES (EXPENSES)		
Rental income	77,001	186,116
Investment income (loss)	2,513,843	(4,448,543)
Other income	<u>36,699</u>	<u>447,691</u>
Total non-operating income (loss)	<u>2,627,543</u>	<u>(3,814,736)</u>
Change in net position	<u>(51,311,210)</u>	<u>30,872,873</u>
Net position, beginning of year	71,041,695	40,168,822
Prior-period adjustment	<u>18,845,593</u>	
Net position, beginning of year, as restated	<u>89,887,288</u>	<u>40,168,822</u>
Net position, end of year	<u>\$ 38,576,078</u>	<u>\$ 71,041,695</u>

The accompanying notes are an integral part of these financial statements.

SCHOOLS EXCESS LIABILITY FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 122,186,975	\$ 58,481,527
Cash received from reinsurance	14,386,491	
Cash paid for claims and settlements	(38,014,408)	(22,019,364)
Cash paid for claims in excess layer	(14,695,635)	
Cash paid for reinsurance premiums	(27,392,271)	(20,286,631)
Cash paid to suppliers for goods and services	(46,245)	(1,999,725)
Cash paid for employees services	(1,570,933)	(1,376,832)
Net cash provided by operating activities	<u>54,853,974</u>	<u>12,798,975</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(18,225)</u>	<u>(6,474)</u>
Net cash used by capital and related financing activities	<u>(18,225)</u>	<u>(6,474)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities purchased	(24,533,663)	(34,600,346)
Securities sold and matured	24,386,240	23,392,738
Rental income received	113,700	633,807
Interest received	<u>3,536,822</u>	<u>1,219,212</u>
Net cash provided (used) by investing activities	<u>3,503,099</u>	<u>(9,354,589)</u>
Net increase in cash and cash equivalents	58,338,848	3,437,912
Cash and cash equivalents, beginning of year	<u>97,481,500</u>	<u>94,043,588</u>
Cash and cash equivalents, end of year	<u>\$ 155,820,348</u>	<u>\$ 97,481,500</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (53,938,753)	\$ 34,687,609
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	98,171	122,141
(Increase) decrease in:		
Interest and other receivables	(317,558)	(615,098)
Member assessments receivable	67,604,683	(86,518,951)
Prepaid expenses	27,435	(42,637)
Deferred outflows of resources	(459,730)	(4,852)
Increase (decrease) in:		
Accounts payable and accrued expenses	1,110,671	(611,590)
Reinsurance payable		18,845,593
Other liabilities	(26,370)	(33,333)
Net pension liability	782,924	(544,408)
Deferred inflows of resources	(73,936)	173,103
Unpaid claims and claim adjustment expenses	<u>40,046,437</u>	<u>47,341,398</u>
Net cash provided by operating activities	<u>\$ 54,853,974</u>	<u>\$ 12,798,975</u>
NONCASH INVESTING ACTIVITIES:		
Net decrease in fair value of investments	<u>\$ (1,116,303)</u>	<u>\$ (6,076,271)</u>

The accompanying notes are an integral part of these financial statements.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Schools Excess Liability Fund (SELF) is a statewide Joint Powers Authority (JPA) established to provide risk pooling for excess liability and excess workers' compensation coverage for educational agencies in California. Effective July 1, 2010, SELF no longer offered an Excess Workers' Compensation Program. SELF will continue to provide administration of this program through the claims run-out period. Participation in SELF is voluntary.

In July 2022 SELF formed a captive insurance company, California Education Reinsurance Company Inc., domiciled in Utah. The captive insurance company is a wholly owned subsidiary of SELF and created to insure the risks of SELF only. As an insurance company it can invest in a more diversified portfolio, including equities, and for a term that more closely matches SELF's long-term liabilities. There was no activity within the captive during the year ended June 30, 2023. SELF will fund and transfer its Workers Compensation Pooled risk to the captive in the year ending June 30, 2024.

Membership

Under the SELF JPA Agreement, member districts must make a three-year commitment to participate in SELF. Mid-term cancellation or withdrawal is not permitted, and members' annual contributions are due at the beginning of the year. As such, all contributions are recognized evenly over the applicable coverage year. Withdrawing districts are not entitled to receive any equity distribution until five years after withdrawal. There were no amounts held for member withdrawal at June 30, 2023, and 2022.

SELF's Excess Liability Program membership currently consist of approximately 660 educational entities including school districts, county offices of education, community college districts, charter schools, regional occupational programs, and education affiliated joint powers authorities.

The Excess Workers' Compensation Program was discontinued by the Board in 2010; however, at the height of the program covered payroll was more than \$8.9 billion with membership consisting of entire JPAs, individual school districts, and community college districts.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and the related liabilities are recognized when the obligation is incurred.

Operating revenues include member contributions and assessments, net of discounts. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, and general and administrative expenses. Non-operating revenues and expenses include investment activities and building income.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Excess Liability Program

Since 1986 SELF has provided excess liability coverage to educational agencies in California.

<u>Policy Years</u>	<u>Member Retentions</u>	<u>SELF Layer</u>
1986-1989	\$1M	\$1M to \$10M
1989-1990	\$1M	\$1M to \$12.5M
1991	\$1 M	\$1M to \$15 M
1992-2006	\$1M - \$5M	\$1M to \$15M
2007-2008	\$1M - \$5M	\$1M to \$20M
2009	\$1M - \$5M	\$1M to \$25M- Fully Insured
2010-2014	\$1M - \$5M	\$1M to \$25M
2015-2017	\$1M - \$5M	\$1M to \$30M
2018	\$1M - \$5M	\$1M to \$55M
2019-2023	\$1M - \$5M	\$1M to \$54M

Excess Workers' Compensation Program

On July 1, 1989 SELF added excess workers' compensation coverage. 2010 was the last policy year SELF offered excess workers' compensation coverage.

<u>Policy Years</u>	<u>Member Retentions</u>	<u>SELF Retention</u>
1990-1999	\$250K - \$2M	\$2M
2000-2004	\$250K - \$1M	\$1M
2005	\$300K - \$1M	\$1M
2006-2010	\$350K - \$1M	\$1M

Excess Coverage

SELF enters into excess coverage agreements whereby it cedes various amounts of risk to another entity. Risks ceded are treated as though they are not risks for which SELF is liable.

Cash and Cash Equivalents

SELF considers all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investment in Building and Equipment

Building and equipment are carried at cost. Depreciation is determined using the straight-line method, over the useful lives of the related assets. The useful lives of the building and improvements are estimated to be thirty years. SELF has sixty-five percent of the building available to lease to third parties under noncancelable leases. One suite is leased to a related party (ASCIP, JPA Member).

The useful lives of furniture and equipment are estimated to be five years except computer equipment, which has a three-year useful life. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statement of revenues, expenses and change in net position for the period. The cost of maintenance and repairs are charged to expense as incurred.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

SELF does not believe there to be any impairment of its capital assets at June 30, 2023 and 2022.

Member Assessment Receivable

SELF's JPA Agreement allows for assessments to address deficit position assets. Assessments are based on a pro rata share of each member's contribution for each policy year assessed. In the event that a member fails to meet their payment schedule, the member shall be charged interest in a manner and amount earned on funds deposited in LAIF, at the time the member is delinquent.

Unpaid Claims and Claim Adjustment Expenses

SELF's policy is to establish unpaid claims and claim adjustment expenses based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage, subrogation and reinsurance recoverable on unpaid claims are deducted from the liability. SELF increases the liability for allocated and unallocated claim adjustment expenses. Because actual claims costs depend on such complex factors as inflation, changes in doctrine of legal liability, and damage awards, the process used in computing unpaid claims and claim adjustment expenses does not necessarily result in an exact amount, particularly for excess coverages. Unpaid claims and claim adjustment expenses are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, other economic and social factors, and estimated payment dates. Adjustments to unpaid claims and claim adjustment expenses are charged or credited to expense in the period in which they are made. The current portion of the claims liabilities has been estimated using an independent actuary's estimate and cash flow projections on current claims.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of SELF's portion of the California Public Employees' Retirement System (CalPERS) Miscellaneous plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Deferred Inflows of Resources

In addition to assets and liabilities, the statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of resources that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Conversely, deferred inflows of resources represent an acquisition of resources that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions made to SELF's pension plan(s) after the measurement date but before the fiscal year end are recorded as a deferred outflow of resources and will reduce the net pension liability in the next fiscal year.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Additional factors involved in the calculation of SELF's pension expense and net pension liability include the differences between expected and actual experience, changes in assumptions, differences between projected and actual investment earnings, changes in proportion, and differences between SELF's contributions and proportionate share of contributions. These factors are recorded as deferred outflows and inflows of resources and amortized over various periods. See Note 6 for further details related to these pension deferred outflows and inflows.

Member Contributions

Member contributions are recognized as revenue when earned based upon the coverage period. To the extent that allocated losses exceed contributions previously paid, interest, and other income, SELF may assess its members.

Commercial Reinsurance Premiums

SELF uses excess insurance and reinsurance agreements to reduce its exposure to large losses on all types of insured events. Excess insurance covers claims in excess of each pool's retention layer. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of SELF as the direct insurer of the risk reinsured. PRISM does not report reinsured risk as a liability, unless it is probable that those risks will not be recovered from reinsurance.

Income Taxes

SELF is an organization comprised of public agencies and is exempt from federal income and California franchise taxes, accordingly, no provision for federal or state income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents:		
Cash on hand and in bank	\$ 51,378,091	\$ 1,941,314
Money Market	1,562,133	368,901
Local Agency Investment Fund	32,026,571	74,935,791
California Asset Management Program	<u>70,853,553</u>	<u>20,235,494</u>
Total cash and cash equivalents	<u>155,820,348</u>	<u>97,481,500</u>
Investments:		
Corporate Notes	20,874,394	17,218,477
U.S. Agency Bonds	12,874,163	14,564,414
U.S. Treasury Notes	37,832,929	39,657,772
Certificates of deposit	812,965	1,535,000
Municipal bonds	3,828,525	6,455,325
Asset-backed securities / collateralized mortgage obligations	<u>6,273,365</u>	<u>4,306,350</u>
Total investments	<u>82,496,341</u>	<u>83,737,338</u>
Total cash, cash equivalents and investments	<u>\$ 238,316,689</u>	<u>\$ 181,218,838</u>

Local Agency Investment Fund

SELF is a voluntary participant in LAIF. The enabling legislation for LAIF is California Government Code Section 16429.1 under the oversight of the Local Investment Advisory Board. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Separate complete financial statements are available at P.O. Box 942809, Sacramento, CA 94209-0001 or online at www.treasurer.ca.gov.

California Asset Management Program

SELF is a voluntary participant in California Asset Management Program (CAMP). CAMP is a California Joint Powers Authority established to provide California public agencies with professional investment services. The balance available for withdrawal is based on the accounting records maintained by CAMP, which are recorded on an amortized cost basis. The CAMP Pool is a permitted investment for all local agencies under California Government Code Sections 53601(p).

Money Market

SELF has a portion of its cash and cash equivalents in a money market account at a third-party custodian. The money market account is not covered by FDIC insurance but is fully collateralized.

Investment Credit Risk

SELF's investment policy limits investment choices to obligations of the United States Treasury, its agencies and instrumentalities, Federal agency or United States sponsored enterprise obligations, State of California or any local agency within the state, Banker's Acceptances Commercial short-term paper, corporate medium-term notes, FDIC insured or fully collateralized time certificates of deposit located in California, negotiable certificates of deposit issued by nationally or state-chartered

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

bank, savings, or federal associations, State of California's Local Agency Investment Fund, insured savings or money market accounts, money market funds registered by the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), mortgage securities or obligations, The California Asset Management Program, and Supranationals located within the United States (CA Gov. Code §53651(j)). At June 30, 2023 and 2022, all investments, excluding LAIF and CAMP, were issued, registered and held by SELF's agent in SELF's name.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets
- Level 2 Inputs to the valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

U.S. Agency Bonds and U.S. Treasury Notes are valued using quoted market prices (Level 1 Input).

Corporate notes, certificates of deposit, Municipal bonds and asset-backed securities/collateralized mortgage obligations are valued using a matrix pricing model (Level 2 Input).

Custodial Credit Risk

Cash balances held in banks are insured up to \$250,000 by the FDIC. As of June 30, 2023 and 2022, the bank balances, \$53,006,510 and \$1,176,100, respectively, were not covered by FDIC insurance, but are fully collateralized.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

The California Government Code and SELF's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2023, the average effective maturity of the investments contained in SELF's pool is approximately 3.00 years.

Information about the sensitivity of the fair values of investments to market interest rate fluctuations is provided by the following table that shows the distribution of SELF's investments by maturity as of June 30, 2023:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>Over 60 Months</u>
Corporate Notes (Level 2)	\$ 20,874,394	\$ 1,598,637	\$ 5,093,356	\$ 14,182,401	
U.S. Agency Bonds (Level 1)	12,874,163	2,150,948	5,156,653	4,360,507	\$ 1,206,055
U.S. Treasury Notes (Level 1)	37,832,929	4,360,881	2,912,040	20,536,425	10,023,583
Certificates of deposit (Level 2)	812,965			812,965	
Municipal bonds (Level 2)	3,828,525	308,750	1,933,828	1,585,947	
Asset-backed securities (Level 2)	6,273,365		745,694	5,303,589	224,082
Total	<u>\$ 82,496,341</u>	<u>\$ 8,419,216</u>	<u>\$ 15,841,571</u>	<u>\$ 46,781,834</u>	<u>\$ 11,453,720</u>

The following table that shows the distribution of SELF's investments by maturity as of June 30, 2022:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>Over 60 Months</u>
Corporate Notes (Level 2)	\$ 17,218,477	\$ 1,214,457	\$ 3,279,989	\$ 12,724,031	
U.S. Agency Bonds (Level 1)	14,564,414	1,992,235	4,298,234	6,811,598	\$ 1,462,347
U.S. Treasury Notes (Level 1)	39,657,772	5,397,818	5,996,297	14,306,109	13,957,548
Certificates of deposit (Level 2)	1,535,000	1,535,000			
Municipal bonds (Level 2)	6,455,325	538,236	2,441,960	3,475,129	
Asset-backed securities (Level 2)	4,306,350		846,359	3,166,585	293,406
Total	<u>\$ 83,737,338</u>	<u>\$ 10,677,746</u>	<u>\$ 16,862,839</u>	<u>\$ 40,483,452</u>	<u>\$ 15,713,301</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. SELF's investment custodian uses Standard & Poor's (S&P) rating system; SELF's investment management company uses Moody's rating system.

Presented below is the actual rating, as rated by S&P, for each investment type as of June 30, 2023:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>			
		<u>AAA to AA</u>	<u>AA- to A-</u>	<u>BBB+*</u>	<u>Not Rated</u>
Corporate Notes	\$ 20,874,394	\$ 4,504,805	\$ 14,460,095	\$ 1,909,494	
U.S. Agency Bonds	12,874,163	12,874,163			
U.S. Treasury Notes	37,832,929	37,832,929			
Certificates of deposit	812,965				\$ 812,965
Municipal bonds	3,828,525	3,754,017	74,508		
Asset-backed securities	6,273,365	6,273,365			
Money market	1,562,133				1,562,133
LAIF	32,026,571				32,026,571
CAMP	70,853,553				70,853,553
Total	<u>\$186,938,598</u>	<u>\$65,239,279</u>	<u>\$ 14,534,603</u>	<u>\$ 1,909,494</u>	<u>\$ 105,255,222</u>

*Rated A3 by Moody's.

Presented below is the actual rating, as rated by S&P, for each investment type as of June 30, 2022:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Rating as of Year End</u>			
		<u>AAA to AA</u>	<u>AA- to A-</u>	<u>BBB+*</u>	<u>Not Rated</u>
Corporate Notes	\$ 17,218,477	\$ 3,157,794	\$ 11,291,501	\$ 2,347,319	\$ 421,863
U.S. Agency Bonds	14,564,414	14,564,414			
U.S. Treasury Notes	39,657,772	38,728,802			928,970
Certificates of deposit	1,535,000	109,962			1,425,038
Municipal bonds	6,455,325	6,223,015	232,310		
Asset-backed securities	4,306,350	4,306,350			
Money market	368,901				368,901
LAIF	74,935,791				74,935,791
CAMP	20,235,494				20,235,494
Total	<u>\$ 179,277,524</u>	<u>\$67,090,337</u>	<u>\$ 11,523,81</u>	<u>\$ 2,347,319</u>	<u>\$ 98,316,057</u>

*Rated A3 by Moody's.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Concentration of Investment Credit Risk

At June 30, 2023 and 2022, SELF's holdings in Federal National Mortgage Association represented 8% and 11% of the portfolio's total invested assets, respectively.

Realized Gains and Losses on Sales of Investments

At June 30, 2023 and 2022, SELF's sales of investments resulted in a realized loss of (\$272,116) and a realized gain of \$334,316, respectively.

3. MEMBER ASSESSMENTS RECEIVABLE

Adverse loss development and increases in the incurred but not reported (IBNR) claims liability resulted in a deficit fund position, for certain policy years, in the Excess Workers' Compensation Program. Although the program has assets for continued operation, the board approved an assessment as provided in SELF's JPA Agreement. Assessments are based on a pro rata share of each member's contributions for each year assessed. The assessment plan provides for collection from members for the ten-year period from 2013–14 through 2022–23 with a review of funding status after five years. There were no excess workers compensation assessments receivables at June 30, 2023. At June 30, 2022, excess workers compensation assessments receivables totaled \$6,346,278 and were all expected to be collected in the following year. At June 30, 2022, SELF made no allowance for uncollected accounts as management estimated the accounts to be collectable.

In 2020, the board approved an assessment due to anticipated adverse loss development and increases in the incurred but not reported (IBNR) claims liability in the Excess Liability Program. Assessments are based on a pro rata share of each member's contributions for each year assessed. The assessment plan provides for collection from members for the two-year period from 2020-21 through 2022-23.

In 2022, the board approved an additional assessment due to anticipated adverse loss development and increases in the incurred but not reported (IBNR) claims liability in the Excess Liability Program. Assessments are based on a pro rata share of each member's contributions for each year assessed. The assessment plan provides for collection from members for the two-year period from 2023-24 through 2025-26. At June 30, 2023, and 2022, SELF made no allowance for uncollectable accounts as management estimated the accounts to be collectable. The assessments receivable at June 30, 2023 and 2022 are as follows:

Excess Liability	<u>2023</u>	<u>2022</u>
Member assessments receivable	\$ 38,752,985	\$ 100,011,390
Less current portion of member assessments receivable	<u>(18,714,073)</u>	<u> </u>
Member assessments receivable, non-current	<u>\$ 20,038,912</u>	<u>\$ 100,011,390</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2023 was as follows:

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2023</u>
Land	\$ 535,065			\$ 535,065
Investment in building	2,806,432	\$ 18,225		2,824,657
Equipment	<u>438,876</u>	<u></u>	<u></u>	<u>438,876</u>
Total	3,780,373	18,225		3,798,598
Less accumulated depreciation	<u>(2,788,055)</u>	<u>(98,171)</u>	<u></u>	<u>(2,886,226)</u>
Capital assets - net	<u>\$ 992,318</u>	<u>\$ (79,946)</u>	<u>\$</u>	<u>\$ 912,372</u>

Capital assets activity for the year ended June 30, 2022 was as follows:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2022</u>
Land	\$ 535,065			\$ 535,065
Investment in building	2,799,958	\$ 6,474		2,806,432
Equipment	<u>438,876</u>	<u></u>	<u></u>	<u>438,876</u>
Total	3,773,899	6,474		3,780,373
Less accumulated depreciation	<u>(2,665,914)</u>	<u>(122,141)</u>	<u></u>	<u>(2,788,055)</u>
Capital assets - net	<u>\$ 1,107,985</u>	<u>\$ (115,667)</u>	<u>\$</u>	<u>\$ 992,318</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

5. UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

As discussed in Note 1, SELF establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended June 30:

	<u>2023</u>	<u>2022</u>
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 199,266,907	\$ 151,925,509
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current year	636,823	849,304
Increase in provision for insured events of prior years	77,424,023	67,855,997
Total incurred losses and loss adjustment expenses	<u>78,060,846</u>	<u>68,705,301</u>
Payments:		
Losses and loss adjustment expenses attributable to insured events of the current year	-	-
Losses and loss adjustment expenses attributable to insured events of prior years	38,014,408	21,363,903
Total payments	<u>38,014,408</u>	<u>21,363,903</u>
Total unpaid losses and loss adjustment expenses, end of fiscal year	<u>\$ 239,313,344</u>	<u>\$ 199,266,907</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Reported claims	\$ 142,495,703	\$ 79,100,001
Claims incurred but not reported (IBNR)	83,627,641	106,336,906
Unallocated loss adjustment expenses (ULAE)	<u>13,190,000</u>	<u>13,830,000</u>
Total unpaid claims and claim adjustment expenses	239,313,344	199,266,907
Unpaid claims and claim adjustment expenses, current	<u>(34,740,000)</u>	<u>(27,214,000)</u>
Unpaid claims and claim adjustment expenses, noncurrent	<u>\$ 204,573,344</u>	<u>\$ 172,052,907</u>

These liabilities are reported at their present value using an expected future investment yield assumption of 1.75% for the Excess Liability Program and 2.50% Excess Workers' Compensation Program for the years ended June 30, 2023 and 2022. The undiscounted liability at June 30, 2023 and 2022 was \$257,437,107 and \$216,862,725, respectively.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

6. EMPLOYEE RETIREMENT PLAN

Plan Description

SELF provides pension benefits to its employees through the Miscellaneous Risk Pool through its participation in the Public Agency Cost-Sharing Multiple-Employer Plan (the Plan) a defined benefit pension plan maintained by CalPERS, an agency of the State of California. SELF had less than 100 active members as of the June 30, 2020 and 2021 actuarial valuation, as a result, qualified employees are covered under the Miscellaneous 2% at 55 Risk Pool. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS issues a publicly available financial report that includes financial statements and required supplementary information for this plan. This report is available online at www.calpers.ca.gov.

The California Legislature passed, and the Governor signed the “Public Employees’ Pension Reform Act of 2013” (PEPRA) on September 12, 2012. PEPRA contained a number of provisions intended to reduce future pension obligations. PEPRA primarily affects new pension plan members who are enrolled for the first time on or after January 1, 2013. Benefit provisions and other requirements are established by State statute.

Benefits Provided

The benefits for the Plan are established by contract with CalPERS, in accordance with the provisions of the California Public Employees’ Retirement Law (PERL). The benefits are based on members’ years of service, age, average salary over a specific period, and benefit formula. Benefits are provided for disability, death, and survivors of eligible members or beneficiaries. To be eligible for service retirement, members must be at least 50 and have a minimum of five years of CalPERS-credited service. Members after January 1, 2013 must be at least 52. The reduced benefit at these ages are 1.426% and 1% for the Classic and PEPRA plans, respectively.

Contributions

Section 20814(c) of the PERL requires employer contribution rates for all public employers be determined on an annual basis by the actuary and are effective on the July 1 following notice of a change in the rate. The contributions are determined through the CalPERS’ annual actuarial valuation process. The Plan’s actuarially determined rate is based on the estimated amount necessary to pay the Plan’s allocated share of the risk pool’s costs of benefits earned by employees during the year, and any unfunded accrued liability. SELF is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. SELF’s required contribution rate on covered payroll for the measurement period ended June 30, 2022 (the measurement date) was 10.87% and 7.47% of annual pay for Classic and PEPRA employees, respectively, and there was no additional payment required to the unfunded liability. Employer contributions rates may change if plan contracts are amended. SELF makes the contributions required of certain SELF employees on their behalf and for their account. For the year ended June 30, 2023, the employer contributions to the plan were \$180,042.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

SELF's Net Pension Liability (NPL) for the Plan is measured as the proportionate share of the NPL. The NPL of the Plan is measured as of June 30, 2022 for the year ended June 30, 2023. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures. As of June 30, 2023, SELF's proportionate share of the Plan's NPL was \$956,902.

The NPL of the Plan is measured as of June 30, 2021 for the year ended June 30, 2022. The total TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures. As of June 30, 2022, SELF's proportionate share of the Plan's NPL was \$173,978.

Using SELF's individual employer rate plan's share of the risk pool TPL and Fiduciary Net Position (FNP), the proportionate shares of the TPL and FNP at the measurement date are determined for SELF by the actuary. SELF's employer NPL allocation factor for the Plan as of June 30, 2022 was as follows:

	<u>Plan</u>
Proportion - June 30, 2022	0.020450%
Proportion - June 30, 2021	<u>0.009163%</u>
Change - increase	<u>0.011287%</u>

For the years ended June 30, 2023 and 2022, SELF recognized pension expense (benefit) of \$429,299 and (\$226,842), respectively.

At June 30, 2023, SELF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 19,216	\$ (12,870)
Changes in assumptions	98,055	
Net differences between projected and actual investment earnings of pension plan investments	175,279	
Change in proportions	233,544	
Change in proportionate share of contributions		(91,421)
Pension contributions subsequent to measurement date	<u>180,042</u>	
Total	<u>\$ 706,136</u>	<u>\$ (104,291)</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

As of June 30, 2023, the \$180,042 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ending June 30, 2024. As of June 30, 2023, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense (benefit) as follows:

Year Ended June 30

2024	\$ 129,985
2024	115,601
2025	69,011
2026	107,206

At June 30, 2022, SELF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 19,510	
Changes in assumptions		
Net differences between projected and actual investment earnings of pension plan investments		\$ (151,874)
Change in proportions	77,581	
Change in proportionate share of contributions		(26,353)
Pension contributions subsequent to measurement date	<u>149,315</u>	<u></u>
Total	<u>\$ 246,406</u>	<u>\$ (178,227)</u>

As of June 30, 2022, the \$149,315 reported as deferred outflows of resources related to employer contributions subsequent to the measurement date that was recognized as a reduction of the NPL in the year ending June 30, 2023. As of June 30, 2022, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30

2023	\$ 5,520
2024	(21,002)
2025	(23,684)
2026	(41,970)

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

Actuarial Assumptions

For the measurement period ended June 30, 2022 (the measurement date), the TPL was determined by rolling forward the June 30, 2021 TPL. The June 30, 2021 and June 30, 2022 TPL were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

⁽¹⁾ The mortality table used was developed based on CalPERS' specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries.

Changes in Assumptions

Effective with the June 30, 2021, valuation date (2022 measurement date), the accounting discount rate was reduced from 7.15% to 6.90%. In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated, combined with risk estimates, and are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. In addition, demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions.

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 6.90%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expenses of 10 Basis points.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

The table below reflects the long-term expected real rate of return by asset class.

Asset Class	Assumed Asset Allocation	Real Return ⁽¹⁾⁽²⁾
Global Equity – cap-weighted	30.00%	4.45%
Global Equity – non-cap-weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.84%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	(5.00%)	(0.59%)
Total	<u>100.00%</u>	

⁽¹⁾ An expected inflation of 2.30% was used for this period.

⁽²⁾ Figures are based on the 2021-22 Asset Liability Management study.

Sensitivity of SELF's Proportional Share of the NPL to Changes in the Discount Rate

The following presents SELF's Proportional Share of the NPL of the Plan as of the June 30, 2022 measurement date, calculated using the discount rate of 6.90%, as well as what SELF's Proportional Share of the NPL would be if it were calculated using a discount rate that is 1 percentage-point lower (5.90%) or 1 percentage-point higher (7.90%) than the current rate:

	Discount Rate – 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
SELF's Proportionate Share of Plan's NPL	<u>\$ 1,673,284</u>	<u>\$ 956,902</u>	<u>\$ 367,497</u>

The following presents SELF's Proportional Share of the NPL of the Plan as of the June 30, 2021 measurement date, calculated using the discount rate of 7.15%, as well as what SELF's Proportional Share of the NPL would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate:

	Discount Rate – 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
SELF's Proportionate Share of Plan's NPL	<u>\$ 809,241</u>	<u>\$ 173,978</u>	<u>\$ (351,184)</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

7. CONTINGENCY

SELF is a party to litigation regarding the AB218 member assessments. SELF does not anticipate and is unable to estimate any adverse financial consequence as a result of the outstanding litigation.

8. RESTATEMENT OF NET POSITION

During the year ended June 30, 2022, SELF entered into a structured reinsurance agreement. Assets contractually obligated to be held in the agreement were reported as an expense in that fiscal year. After further review of the contract during 2023, SELF determined that the obligation of funds held did not represent an expense and are intended only to represent amounts set aside to fund SELF's retained portion of future claims. A restatement of beginning net position was required to reverse the expense recorded of \$18,845,593.

Net position at beginning of year, as previously reported	\$ 71,041,695
Restatement of beginning net position	<u>18,845,593</u>
Net position at beginning of year, as restated	<u>\$ 89,887,288</u>

The effect of the change in net position for the year ended June 30, 2022, would have been as follows:

Change in net position, as previously reported	\$ 30,872,873
Reduction in Commercial Insurance Premiums	<u>18,845,593</u>
Change in net position, as restated	<u>\$ 49,718,466</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOLS EXCESS LIABILITY FUND

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS LIABILITY PROGRAM FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 147,705,906	\$ 96,182,451
Incurring claims and claim adjustment expenses:		
Provision for covered events of current year	636,823	849,304
Change in provision for covered events of prior years	<u>82,693,895</u>	<u>70,127,540</u>
Total incurred claims and claim adjustment expenses	<u>83,330,718</u>	<u>70,976,844</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current year		
Claims and claim adjustment expenses attributable to covered events of prior years	<u>36,603,280</u>	<u>19,453,389</u>
Total payments	<u>36,603,280</u>	<u>19,453,389</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 194,433,344</u>	<u>\$ 147,705,906</u>
The components of the unpaid claims and claim adjustment expenses as of June 30, 2023 and 2022 were as follows:		
Reported claims	\$ 112,528,703	\$ 45,276,000
Claims incurred but not reported	76,194,641	97,897,906
Unallocated loss adjustment expenses	<u>5,710,000</u>	<u>4,532,000</u>
	<u>\$ 194,433,344</u>	<u>\$ 147,705,906</u>

SCHOOLS EXCESS LIABILITY FUND

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS WORKERS' COMPENSATION PROGRAM FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>51,561,001</u>	\$ <u>55,743,058</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year		
Change in provision for covered events of prior years	<u>(5,269,872)</u>	<u>(2,271,543)</u>
Total incurred claims and claim adjustment expenses	<u>(5,269,872)</u>	<u>(2,271,543)</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current year		
Claims and claim adjustment expenses attributable to covered events of prior years	<u>1,411,129</u>	<u>1,910,514</u>
Total payments	<u>1,411,129</u>	<u>1,910,514</u>
Total unpaid claims and claim adjustment expenses, end of year	\$ <u>44,880,000</u>	\$ <u>51,561,001</u>
The components of the unpaid claims and claim adjustment expenses as of June 30, 2023 and 2022 were as follows:		
Reported claims	\$ 29,967,000	\$ 33,824,001
Claims incurred but not reported	7,433,000	8,439,000
Unallocated loss adjustment expenses	<u>7,480,000</u>	<u>9,298,000</u>
	<u>\$ 44,880,000</u>	<u>\$ 51,561,001</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2023 AND 2022

The tables that follow illustrate how the Fund's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Fund as of the end of each of the previous ten years for the Liability and Workers' Compensation Programs. The rows of the tables are defined as follows:

1. Total of each fiscal year's gross earned premiums, rate credits, amounts of premiums ceded, and reported premiums (net of reinsurance) and reported investment revenue allocated to each policy year.
2. Each fiscal year's other operating costs of the Program including overhead and loss adjustment expenses not allocable to individual claims.
3. Program's gross incurred losses and allocated loss adjustment expense, losses assumed by reinsurers, and net incurred losses and loss adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called policy year).
4. Cumulative net amounts paid as of the end of successive years for each policy year.
5. Latest reestimated amount of losses assumed by reinsurers for each policy year.
6. Policy year's net incurred claims as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
7. Compares the latest reestimated net incurred claims amount to the amount originally established (line 5) and shows whether this latest estimate of claims cost are greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.
8. Outstanding unpaid claims and claim adjustment expenses as of June 30, 2023 for each policy year.

The columns of the tables show data for successive policy years.

SCHOOLS EXCESS LIABILITY FUND

CLAIMS DEVELOPMENT INFORMATION EXCESS LIABILITY PROGRAM

(in thousands)

JUNE 30, 2023

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
(1) Premiums Revenue:										
Earned	\$ 9,874	\$ 10,294	\$ 10,982	\$ 14,352	\$ 15,074	\$ 21,097	\$ 72,262	\$ 44,293	\$ 144,939	\$ 54,591
Ceded (by policy year)	(6,602)	(7,061)	(7,401)	(8,221)	(7,899)	(8,247)	(10,170)	(17,930)	(20,253)	(27,366)
Cumulative interest earned (by policy year)	31	566	820	29	62	1,362	1,357	291	(957)	2,293
Net earned contribution and investment income	<u>3,303</u>	<u>3,799</u>	<u>4,401</u>	<u>6,160</u>	<u>7,237</u>	<u>14,212</u>	<u>63,449</u>	<u>26,654</u>	<u>123,729</u>	<u>29,518</u>
(2) Unallocated Expenses	\$ 1,473	\$ 1,504	\$ 1,524	\$ 1,371	\$ 1,474	\$ 1,876	\$ 1,935	\$ 2,083	\$ 2,011	\$ 2,501
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844	\$ 6,412	\$ 7,866	\$ 10,911	\$ 14,025	\$ 849	\$ 14,862
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	<u>2,740</u>	<u>2,680</u>	<u>5,084</u>	<u>5,844</u>	<u>6,412</u>	<u>7,866</u>	<u>10,911</u>	<u>14,025</u>	<u>849</u>	<u>14,862</u>
(4) Paid (Cumulative) as of:										
End of Policy Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One Year Later	-	5,000	-	9	-	7	-	-	-	-
Two Years Later	580	8,500	-	1,332	849	7	-	2	-	-
Three Years Later	844	13,362	6	9,792	849	7	6,088	-	-	-
Four Years Later	6,114	19,362	6	10,719	857	83	-	-	-	-
Five Years Later	6,114	19,362	6	18,090	858	-	-	-	-	-
Six Years Later	6,114	19,362	6	18,090	-	-	-	-	-	-
Seven Years Later	6,114	19,362	16	-	-	-	-	-	-	-
Eight Years Later	6,115	19,362	-	-	-	-	-	-	-	-
Nine Years Later	6,115	-	-	-	-	-	-	-	-	-
(5) Re-estimated Ceded Losses and Expenses	\$ -	\$ 3,778	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(6) Re-estimated incurred claims and expenses:										
End of Policy Year	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844	\$ 6,412	\$ 7,866	\$ 10,911	\$ 14,025	\$ 849	\$ 14,862
One Year Later	3,645	8,475	4,653	5,580	7,439	7,282	9,636	10,952	14,790	-
Two Years Later	9,266	16,686	4,094	17,545	7,187	4,957	6,870	7,286	-	-
Three Years Later	6,354	22,256	1,960	24,895	6,387	3,652	14,488	-	-	-
Four Years Later	7,847	20,632	2,270	22,727	5,638	2,613	-	-	-	-
Five Years Later	6,936	21,061	2,006	22,678	14,392	-	-	-	-	-
Six Years Later	7,394	20,820	1,741	21,177	-	-	-	-	-	-
Seven Years Later	7,263	20,774	3,726	-	-	-	-	-	-	-
Eight Years Later	7,356	20,320	-	-	-	-	-	-	-	-
Nine Years Later	11,044	-	-	-	-	-	-	-	-	-
(7) Increase (Decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ 8,304</u>	<u>\$ 17,640</u>	<u>\$ (1,358)</u>	<u>\$ 15,333</u>	<u>\$ 7,980</u>	<u>\$ (5,253)</u>	<u>\$ 3,577</u>	<u>\$ (6,739)</u>	<u>\$ 13,941</u>	<u>\$ -</u>
(8) Unpaid claims and claim adjustment expenses with ULAE	<u>\$ 4,929</u>	<u>\$ 958</u>	<u>\$ 3,710</u>	<u>\$ 3,087</u>	<u>\$ 13,534</u>	<u>\$ 2,530</u>	<u>\$ 8,400</u>	<u>\$ 7,284</u>	<u>\$ 14,790</u>	<u>\$ 14,862</u>

SCHOOLS EXCESS LIABILITY FUND

SCHEDULE OF SELF'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2023 LAST 10 YEARS*

<i>Measurement Date Ended June 30:</i>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
SELF's proportion of the net pension liability	0.02045%	0.00916%	0.01703%	0.01622%	0.01754%	0.01993%	0.01947%	0.01933%	0.02193%
SELF's proportionate share of the net pension liability	\$ 956,902	\$ 173,978	\$ 718,386	\$ 649,422	\$ 661,064	\$ 785,612	\$ 676,383	\$ 530,238	\$ 542,029
SELF's covered employee payroll	\$ 929,522	\$ 975,223	\$ 1,005,729	\$ 1,118,047	\$ 883,549	\$ 850,014	\$ 783,263	\$ 561,000	\$ 561,000
SELF's proportionate share of the net pension liability as a percentage of their covered-employee payroll	102.95%	17.84%	71.43%	58.09%	74.82%	92.42%	86.35%	94.52%	96.62%
Plan fiduciary net position as a percentage of the total pension liability	76.68%	88.29%	75.10%	75.26%	75.26%	73.30%	74.10%	78.40%	78.60%

Notes to Schedule:

Change of benefit terms – For the measurement dates ended June 30, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014, there were no changes to the benefit terms.

Changes in assumptions – For the measurement period ending June 30, 2022, the discount rate was reduced from 7.15% to 6.90% and demographic assumptions and the inflation rate assumption were changed in accordance with the 2021 CalPERS Experience Study and Review of Actuarial Assumptions. For the measurement period ending June 30, 2018, demographic assumptions and inflation rate were changed in accordance with CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes to the discount rate.

* Fiscal year 2014 was the 1st year of implementation, therefore only nine years are shown.

SCHOOLS EXCESS LIABILITY FUND

SCHEDULE OF SELF'S CONTRIBUTIONS

AS OF JUNE 30, 2023

LAST 10 YEARS*

<i>Fiscal Year Ended June 30:</i>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 180,042	\$ 149,315	\$ 142,249	\$ 124,462	\$ 206,552	\$ 236,978	\$ 116,083	\$ 105,452	\$ 80,717
Contributions in relation to the contractually required contributions	<u>(180,042)</u>	<u>(149,315)</u>	<u>(142,249)</u>	<u>(124,462)</u>	<u>(206,552)</u>	<u>(236,978)</u>	<u>(116,083)</u>	<u>(105,452)</u>	<u>(80,717)</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
SELF's covered-employee payroll	\$ 1,148,279	\$ 929,522	\$ 975,223	\$ 1,005,729	\$ 1,118,047	\$ 883,549	\$ 850,014	\$ 783,263	\$ 561,000
Contributions as a percentage of covered-employee payroll	15.68%	16.06%	14.59%	12.38%	18.47%	26.82%	13.66%	13.46%	14.39%

* Fiscal year 2015 was the 1st year of implementation, therefore only nine years are shown.

SUPPLEMENTARY INFORMATION

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF NET POSITION JUNE 30, 2023

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 128,144,270	\$ 26,879,498	\$ 796,580		\$ 155,820,348
Investments	6,156,358	2,262,858			8,419,216
Accounts receivable:					
Interest and other	1,440,625	340,690	4,224	\$ (50,000)	1,735,539
Member assessments receivable	18,714,073				18,714,073
Prepaid expenses	29,098	1,276	1,633		32,007
Total current assets	<u>154,484,424</u>	<u>29,484,322</u>	<u>802,437</u>	<u>(50,000)</u>	<u>184,721,183</u>
Noncurrent assets:					
Investments	24,403,365	49,673,760			74,077,125
Member assessments receivable	20,038,912				20,038,912
Capital assets, net	38,405	1,405	872,562		912,372
Total noncurrent assets	<u>44,480,682</u>	<u>49,675,165</u>	<u>872,562</u>		<u>95,028,409</u>
Total assets	<u>198,965,106</u>	<u>79,159,487</u>	<u>1,674,999</u>	<u>(50,000)</u>	<u>279,749,592</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	<u>497,025</u>	<u>209,111</u>			<u>706,136</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	1,468,262	72,580	14,271	(50,000)	1,505,113
Unpaid claims and claim adjustment expenses	30,426,000	4,314,000			34,740,000
Total current liabilities	<u>31,894,262</u>	<u>4,386,580</u>	<u>14,271</u>	<u>(50,000)</u>	<u>36,245,113</u>
Noncurrent liabilities:					
Net pension liability	660,791	296,111			956,902
Unpaid claims and claim adjustment expenses	164,007,344	40,566,000			204,573,344
Total noncurrent liabilities	<u>164,668,135</u>	<u>40,862,111</u>			<u>205,530,246</u>
Total liabilities	<u>196,562,397</u>	<u>45,248,691</u>	<u>14,271</u>	<u>(50,000)</u>	<u>241,775,359</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources related to pensions	<u>64,216</u>	<u>40,075</u>			<u>104,291</u>
NET POSITION					
Net investment in capital assets	38,405	1,405	872,562		912,372
Unrestricted	<u>2,797,113</u>	<u>34,078,427</u>	<u>788,166</u>		<u>37,663,706</u>
Total net position	<u>\$ 2,835,518</u>	<u>\$ 34,079,832</u>	<u>\$ 1,660,728</u>	<u>\$</u>	<u>\$ 38,576,078</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF NET POSITION JUNE 30, 2022

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 75,395,533	\$ 21,388,488	\$ 697,479	\$ 97,481,500
Investments	8,100,685	2,577,061		10,677,746
Accounts receivable:				
Interest and other	841,252	206,694	4,594	1,052,540
Member assessments receivable		6,346,278		6,346,278
Prepaid expenses	11,660	1,411	46,371	59,442
Total current assets	<u>84,349,130</u>	<u>30,519,932</u>	<u>748,444</u>	<u>115,617,506</u>
Noncurrent assets:				
Investments	22,854,712	50,204,880		73,059,592
Member assessments receivable	100,011,390			100,011,390
Capital assets, net	58,211	1,775	932,332	992,318
Total noncurrent assets	<u>122,924,313</u>	<u>50,206,655</u>	<u>932,332</u>	<u>174,063,300</u>
Total assets	<u>207,273,443</u>	<u>80,726,587</u>	<u>1,680,776</u>	<u>289,680,806</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	<u>175,214</u>	<u>71,192</u>		<u>246,406</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	362,833	23,534	8,075	394,442
Reinsurance payable	18,845,593			18,845,593
Other liabilities	26,370			26,370
Unpaid claims and claim adjustment expenses	22,900,000	4,314,000		27,214,000
Total current liabilities	<u>42,134,796</u>	<u>4,337,534</u>	<u>8,075</u>	<u>46,480,405</u>
Noncurrent liabilities:				
Net pension liability	112,744	61,234		173,978
Unpaid claims and claim adjustment expenses	124,805,906	47,247,001		172,052,907
Total noncurrent liabilities	<u>124,918,650</u>	<u>47,308,235</u>		<u>172,226,885</u>
Total liabilities	<u>167,053,446</u>	<u>51,645,769</u>	<u>8,075</u>	<u>218,707,290</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	<u>115,971</u>	<u>62,256</u>		<u>178,227</u>
NET POSITION				
Net investment in capital assets	58,211	1,775	932,332	992,318
Unrestricted	40,221,029	29,087,979	740,369	70,049,377
Total net position	<u>\$ 40,279,240</u>	<u>\$ 29,089,754</u>	<u>\$ 1,672,701</u>	<u>\$ 71,041,695</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2023

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUE					
Member contributions	\$ 56,721,147				\$ 56,721,147
Member assessments					
Less: discounts	<u>(2,130,440)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(2,130,440)</u>
Total operating revenues	<u>54,590,707</u>	<u> </u>	<u> </u>	<u> </u>	<u>54,590,707</u>
OPERATING EXPENSES					
Provision for unpaid claims and claim adjustment expenses	83,330,718	\$ (5,269,872)			78,060,846
Commercial reinsurance premiums	<u>27,365,901</u>	<u> </u>	<u> </u>	<u> </u>	<u>27,365,901</u>
Total direct claims expenses	<u>110,696,619</u>	<u>(5,269,872)</u>	<u> </u>	<u> </u>	<u>105,426,747</u>
General and administrative expenses:					
Contract services	425,960	126,075			552,035
Personnel costs	1,511,907	288,432	\$ 71,896		1,872,235
Administrative expenses	542,910	82,074	3,148	\$ (144,220)	483,912
Building	201		96,159		96,360
Depreciation	<u>19,805</u>	<u>370</u>	<u>77,996</u>	<u> </u>	<u>98,171</u>
Total general and administrative	<u>2,500,783</u>	<u>496,951</u>	<u>249,199</u>	<u>(144,220)</u>	<u>3,102,713</u>
Total operating expenses	<u>113,197,402</u>	<u>(4,772,921)</u>	<u>249,199</u>	<u>(144,220)</u>	<u>108,529,460</u>
Operating income (loss)	<u>(58,606,695)</u>	<u>4,772,921</u>	<u>(249,199)</u>	<u>144,220</u>	<u>(53,938,753)</u>
NON-OPERATING REVENUES (EXPENSES)					
Rental income			221,221	(144,220)	77,001
Investment income	2,292,839	206,999	14,005		2,513,843
Other income	<u>24,541</u>	<u>10,158</u>	<u>2,000</u>	<u> </u>	<u>36,699</u>
Total non-operating income	<u>2,317,380</u>	<u>217,157</u>	<u>237,226</u>	<u>(144,220)</u>	<u>2,627,543</u>
Change in net position	<u>(56,289,315)</u>	<u>4,990,078</u>	<u>(11,973)</u>	<u> </u>	<u>(51,311,210)</u>
Net position, beginning of year	40,279,240	29,089,754	1,672,701		71,041,695
Prior-period adjustment	<u>18,845,593</u>	<u> </u>	<u> </u>	<u> </u>	<u>18,845,593</u>
Net position, beginning of year, as restated	<u>59,124,833</u>	<u>29,089,754</u>	<u>1,672,701</u>	<u> </u>	<u>89,887,288</u>
Net position, end of year	<u>\$ 2,835,518</u>	<u>\$ 34,079,832</u>	<u>\$ 1,660,728</u>	<u>\$</u>	<u>\$ 38,576,078</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2022

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
OPERATING REVENUE				
Member contributions	\$ 48,299,334	\$ 21,426		\$ 48,320,760
Member assessments	96,642,373			96,642,373
Less: Discounts	(3,018)			(3,018)
Total operating revenues	<u>144,938,689</u>	<u>21,426</u>		<u>144,960,115</u>
OPERATING EXPENSES				
Provision for unpaid claims and claim adjustment expenses	70,976,844	(2,271,543)		68,705,301
Commercial reinsurance premiums	<u>39,098,891</u>			<u>39,098,891</u>
Total direct claims expenses	<u>110,075,735</u>	<u>(2,271,543)</u>		<u>107,804,192</u>
General and administrative expenses:				
Contract services	651,141	90,217		741,358
Personnel costs	847,327	83,471	\$ 55,240	986,038
Administrative expenses	477,875	47,677	6,530	532,082
Building			86,695	86,695
Depreciation	<u>3,580</u>	<u>1,825</u>	<u>116,736</u>	<u>122,141</u>
Total general and administrative	<u>1,979,923</u>	<u>223,190</u>	<u>265,201</u>	<u>2,468,314</u>
Total operating expenses	<u>112,055,658</u>	<u>(2,048,353)</u>	<u>265,201</u>	<u>110,272,506</u>
Operating income (loss)	<u>32,883,031</u>	<u>2,069,779</u>	<u>(265,201)</u>	<u>34,687,609</u>
NON-OPERATING REVENUES (EXPENSES)				
Rental income			186,116	186,116
Investment income	(957,168)	(3,493,906)	2,531	(4,448,543)
Other income	<u>447,474</u>	<u>217</u>		<u>447,691</u>
Total non-operating revenues (expenses)	<u>(509,694)</u>	<u>(3,493,689)</u>	<u>188,647</u>	<u>(3,814,736)</u>
Change in net position	32,373,337	(1,423,910)	(76,554)	30,872,873
Net position, beginning of year	<u>7,905,903</u>	<u>30,513,664</u>	<u>1,749,255</u>	<u>40,168,822</u>
Net position, end of year	<u>\$ 40,279,240</u>	<u>\$ 29,089,754</u>	<u>\$ 1,672,701</u>	<u>\$ 71,041,695</u>

OTHER INDEPENDENT AUDITOR'S REPORT

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Board of Directors and Members
Schools Excess Liability Fund
Sacramento, California**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Schools Excess Liability Fund (SELF), as of June 30, 2023, and the related notes to the financial statements, which collectively comprise SELF's basic financial statements, and have issued our report thereon dated December 8, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SELF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SELF's internal control. Accordingly, we do not express an opinion on the effectiveness of SELF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SELF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SELF's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on SELF's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SELF's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SELF's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gilbert CPAs

GILBERT CPAs
Sacramento, California

December 8, 2023

SCHOOLS EXCESS LIABILITY FUND

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2023

FINANCIAL STATEMENT FINDING

2023-001. Calculation of Claims Liability at June 30, 2023

Condition: During our analysis of the claims liability calculation for the Excess Liability program at June 30, 2023, adjustments to the financial statements were required in order to properly state the claims liability. The adjusting entries resulted in a net decrease of \$1,478,430 to claims liabilities and related claims expenses for the year ended June 30, 2023.

Criteria: The calculation of claims liabilities should properly include all transactions during the current year and should reconcile to cash transactions.

Cause: Certain transactions were initially excluded from the reconciliation process.

Effect: Claims liabilities and claims expenses required adjustment by \$1,478,430 as of June 30, 2023.

Recommendation: To mitigate such discrepancies, we recommend that claims transactions be reconciled to between the general ledger and the claims loss run on a periodic basis throughout the year. This will help to ensure timely integration of all year-end transactions and enhance awareness of data accuracy subsequent to year-end.

SELF's Response: Management agrees with the auditors' finding, and the following action will be taken to improve the situation.

1. SELF will immediately implement quarterly reconciliations of the general ledger to the claims loss run.