

SCHOOLS EXCESS LIABILITY FUND

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

YEARS ENDED JUNE 30, 2021 AND 2020

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 Financial Statements

We have audited the accompanying financial statements of Schools Excess Liability Fund (SELF) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise SELF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SELF as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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, notes to the required supplementary information, claims development information, schedule of SELF's proportionate share of the net pension liability, and the schedule of SELF's contributions on pages 3-8 and 29-34, be presented to supplement the basic financial statements. Such information, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise SELF's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 financial statements 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 February 1, 2022, 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

February 1, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2021 and 2020



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 1986 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.

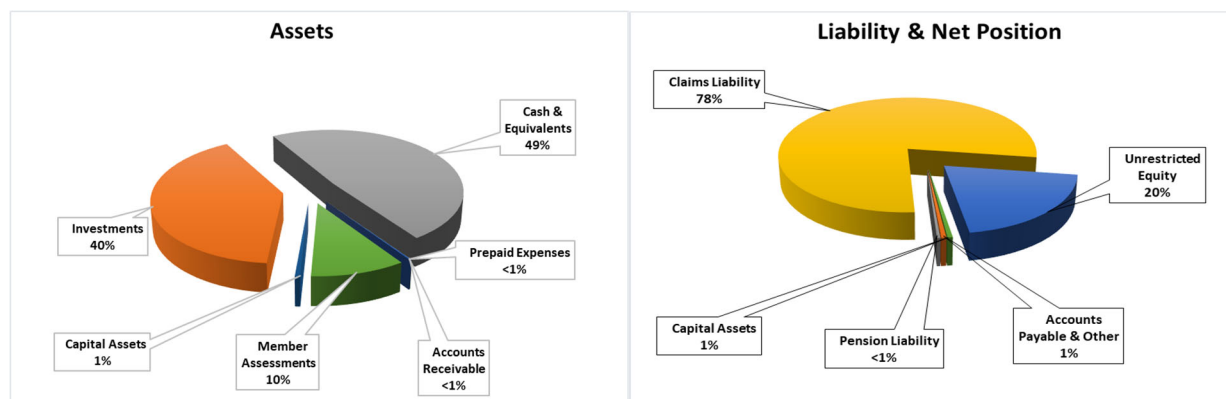
Overview of the Financial Statements

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, 2021 and 2020. 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, 2021 and 2020.

Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2021 and 2020



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 89% of all assets. Total investments, cash & cash equivalents have increased 60%. The other major asset is Member Assessments. For the year ended June 30, 2021, member assessments include one remaining year of a ten-year fixed assessment plan to fund Excess Workers' Compensation claims from July 1, 1989 through June 30, 2010. SELF, like most self-insured workers' compensation pools, has had to assess members, due to the continuing increases in indemnity expenses over the original estimates going back to the program's inception in 1989. For the year ended June 30, 2020, member assessments also included the accrual for an assessment to fund liabilities associated with a new law – AB 218. The collection of the AB 218 assessment during the current year resulted in the increase in investments, cash & cash equivalents.

The majority of assets are held to fund the claims liabilities, which account for 99% of all liabilities. Total claims liabilities have increased 8% from June 30, 2020. As of June 30, 2021, 18% 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 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
For the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019**

	Combined Programs			2020/2021	2019/2020	2018/2019
	XL	XWC	Building			
ASSETS						
Current Assets	\$ 83,104	\$ 25,493	\$ 723	\$ 109,320	\$ 58,262	\$ 31,119
Non-current Assets	22,236	60,978	-	83,214	115,329	89,057
Capital Assets	62	4	1,042	1,108	1,030	1,148
Total Assets	105,402	86,475	1,765	193,642	174,621	121,324
Deferred Outflow of Resources	172	77	(7)	242	313	423
LIABILITIES						
Current Liabilities	23,883	4,390	7	28,280	25,446	11,630
Long-term Liabilities	73,795	51,632	3	125,431	115,747	90,221
Total Liabilities	97,678	56,022	10	153,711	141,193	101,851
Deferred Inflow of Resources	(10)	16	(1)	5	64	31
NET POSITION						
Invested in Capital Assets	62	4	1,042	1,108	1,030	1,147
Undesignated	7,844	30,510	707	39,061	32,646	18,717
Total Net Position	\$ 7,906	\$ 30,514	\$ 1,749	\$ 40,169	\$ 33,676	\$ 19,864

*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 2021 and 2020

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, 2020 through June 30, 2021 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 73% from the prior year to continue to address the escalating legal liability and legislative trends statewide. For the year ending June 30, 2021, there were no member assessments, compared to member assessments of \$46.6 million for the year ended June 30, 2020. The member assessments in the prior year were to fund liabilities associated with a new law – AB 218. 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.

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 93% of all expenditures, these were 42% lower than the prior year; largely caused by recording the estimated increased claim liabilities related to AB 218 and increased reinsurance premiums in the prior year. While member contributions and reinsurance expense are for the fiscal year ending June 30, 2021, 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 7% of total expense and decreased 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 gain for the fiscal year.

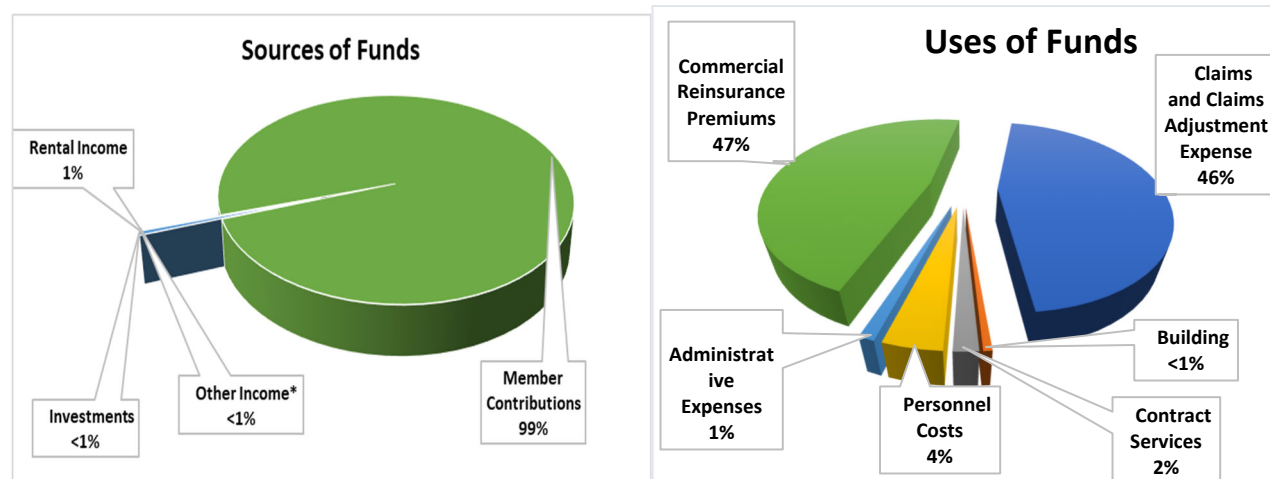
Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2021 and 2020

Schools Excess Liability Fund Statement of Revenues, Expenses & Change in Net Position For the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019

	Combined Programs			2020/2021	2019/2020	2018/2019
	XL	XWC	Building			
Operating Revenue:						
Member Contributions	\$ 44,293	\$ -	\$ -	\$ 44,293	\$ 25,662	\$ 21,097
Member Assessments		-	-	-	46,600	
Total Operating Revenues	44,293	-	-	44,293	72,262	21,097
Program Expenses:						
Provision for Claims & Claims Adj.	20,035	(2,650)	-	17,385	51,183	12,961
Commercial Reinsurance Premiums	17,930		-	17,930	10,170	8,247
Total Program Expenses	37,965	(2,650)	-	35,315	61,353	21,208
General & Administrative Expense	2,083	385	598	2,766	2,780	2,760
Total Operating Expenses	40,048	(2,265)	598	38,081	64,133	23,968
Operating Income (Loss)	4,245	2,265	(298)	6,212	8,129	(2,871)
Non-Operating Income / Expense:						
Rental Income	-	-	238	238	304	304
Interest Income (Loss)	291	(253)	4	42	5,375	4,331
Other Income	1	-	-	1	4	4
Total Non-operating Rev. (Exp.)	292	(253)	242	281	5,683	4,639
Change in Net Position	\$ 4,537	\$ 2,012	\$ (56)	\$ 6,493	\$ 13,812	\$ 1,767
Net Position, Beginning Balance	\$ 3,369	\$ 28,502	\$ 1,805	\$ 33,676	\$ 19,864	\$ 18,097
Net Position, Ending Balance	\$ 7,906	\$ 30,514	\$ 1,749	\$ 40,169	\$ 33,676	\$ 19,864

*Please note, amounts in thousands, may not foot and/or may vary from audited financial statements due to rounding. Building Income and Expenses are recorded at gross amounts, whereas audited financial statements may net building expenses against income.

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 2020/2021, SELF had 546 K-12 and Community College members across the state of California.

Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2021 and 2020

In 2020/2021, 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 2020/21 to continue to address the escalating legal liability and legislative trends statewide, including the passage of AB 218.

As of June 30, 2021, the Excess Liability Program has \$98 million in cash and investments available to fund claims, a 169% increase from June 30, 2020. Actual claims paid in 2020/2021 were \$3.2 million and reserves increased \$9.1 million, while the incurred but not reported increased \$7.1 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 incurred but not reported (IBNR) increase was driven exclusively by AB 218 estimated 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, 2021, the Excess Workers' Compensation Program has \$73.6 million in cash and investments available to fund claims, a 4.8% increase from June 30, 2020. SELF reimbursed members \$2.4 million for claims in 2020/2021 and \$53.5 million since the program closed in 2010. In 2020/2021, the program realized a reduction of \$5.1 million in combined claims reserves and incurred but not reported (IBNR) claims liability and unallocated loss adjustment expense (ULAE).

Open claims were reduced from 240 to 229. 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.

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.

Schools Excess Liability Fund

Management's Discussion and Analysis

Fiscal Year 2021 and 2020

Investments:

SELF has \$172.3 million in cash and investments, with \$78.3 million held in investment accounts, as of June 30, 2021. Approximately 54% 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 were essentially equal to the adopted budget and increased 73% from prior year actuals. Within Program Expenses reinsurance expense ended 4% less than budgeted, and 76% more than the prior fiscal year. General & Administrative expenses were 11% under original budget, and 1% lower than the prior year. Non-operating revenues ended 82% under budget, as realized and unrealized gains on investments lifted investment earnings over budget.

Budget vs. Actual For the Year Ended June 30, 2021

			Variance	
	Budget	Actual	Amount	Percent
Operating Revenues	\$ 45,324	\$ 44,293	\$ (1,031)	-2%
Program Expenses	(39,317)	(35,315)	4,002	-10%
General & Administrative Expenses	(3,092)	(2,766)	326	-11%
Total Operating Income (Loss)	2,915	6,212	3,297	113%
Non-operating Revenue (Expense)	1,604	281	(1,323)	-82%
Change in Net Position	\$ 4,519	\$ 6,493	\$ 1,974	44%

Schools Excess Liability Fund Adopted Budget For the Years Ended June 30, 2021, June 30, 2020, and June 30, 2019

	XL	XWC	Building	2020/2021	2019/2020	2018/2019
Operating Revenues	\$ 45,324	\$ -	\$ -	\$ 45,324	\$ 23,794	\$ 20,372
Program Expenses	(39,317)	-	-	(39,317)	(21,464)	(13,292)
General & Administrative Expense	(2,147)	(562)	(383)	(3,092)	(2,837)	(2,719)
Operating Income (Loss)	3,860	(562)	(383)	2,915	(507)	4,361
Total Non-operating Rev/(Exp)	707	700	197	1,604	2,054	1,729
Change in Net Position	\$ 4,567	\$ 138	\$ (186)	\$ 4,519	\$ 1,547	\$ 6,090

Factors Bearing on the Future:

The Schools Excess Liability Fund's fiscal year 2021/2022 Operating Budget includes \$48.4 million in Revenue, \$50.8 million in program expense, \$3.6 million in General and Administrative Expenses, and \$.7 million in Non-Operating Revenue, for a decrease in Net Position of \$5.3 million. It was reviewed by the Finance Committee on May 13, 2021 and approved by the Board of Directors on June 4, 2021; it was subsequently revised and approved on December 21, 2021.

Schools Excess Liability Fund Adopted Budget For the Years Ended June 30, 2022, June 30, 2021, and June 30, 2020

	XL	XWC	Building	2021/2022	2020/2021	2019/2020
Operating Revenues	\$ 48,402	\$ -	\$ -	\$ 48,402	\$ 45,324	\$ 23,794
Program Expenses	(51,287)	500	-	(50,787)	(39,317)	(21,464)
General & Administrative Expense	(2,691)	(527)	(383)	(3,601)	(3,092)	(2,837)
Operating Income (Loss)	(5,576)	(27)	(383)	(5,986)	2,915	(507)
Total Non-operating Revenue. (Expense.)	264	207	208	679	1,604	2,054
Change in Net Position	\$ (5,312)	\$ 180	\$ (175)	\$ (5,307)	\$ 4,519	\$ 1,547

FINANCIAL STATEMENTS

SCHOOLS EXCESS LIABILITY FUND

STATEMENTS OF NET POSITION JUNE 30, 2021 AND 2020

ASSETS	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 94,043,588	\$ 29,032,168
Investments	4,781,572	6,890,744
Accounts receivable:		
Interest and other	363,242	445,944
Member assessments receivable	10,114,477	21,888,614
Prepaid expenses	16,805	4,989
Total current assets	<u>109,319,684</u>	<u>58,262,459</u>
Noncurrent assets:		
Investments	73,490,113	71,560,380
Member assessments receivable	9,724,240	43,768,226
Capital assets, net	1,107,985	1,030,248
Total noncurrent assets	<u>84,322,338</u>	<u>116,358,854</u>
Total assets	<u>193,642,022</u>	<u>174,621,313</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	<u>241,554</u>	<u>312,483</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	1,006,032	261,407
Other liabilities	59,703	59,703
Unpaid claims and claim adjustment expenses	<u>27,214,000</u>	<u>25,125,000</u>
Total current liabilities	<u>28,279,735</u>	<u>25,446,110</u>
Noncurrent liabilities:		
Other liabilities		33,334
Net pension liability	718,386	649,422
Unpaid claims and claim adjustment expenses	<u>124,711,509</u>	<u>115,064,693</u>
Total noncurrent liabilities	<u>125,429,895</u>	<u>115,747,449</u>
Total liabilities	<u>153,709,630</u>	<u>141,193,559</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	<u>5,124</u>	<u>64,325</u>
NET POSITION		
Net investment in capital assets	1,107,985	1,030,248
Unrestricted	<u>39,060,837</u>	<u>32,645,664</u>
Total net position	<u>\$ 40,168,822</u>	<u>\$ 33,675,912</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, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
OPERATING REVENUE		
Member contributions	\$ 45,360,516	\$ 25,662,424
Member assessment		46,600,000
Less: discounts	(1,067,901)	
Total operating revenues	<u>44,292,615</u>	<u>72,262,424</u>
OPERATING EXPENSES		
Provision for unpaid claims and claim adjustment expenses	17,385,267	51,183,064
Commercial reinsurance premiums	<u>17,930,285</u>	<u>10,169,773</u>
Total direct claims expenses	<u>35,315,552</u>	<u>61,352,837</u>
General and administrative expenses:		
Contract services	631,249	536,339
Personnel costs	1,499,663	1,485,520
Administrative expenses	411,363	538,367
Building	101,949	97,554
Depreciation	<u>121,143</u>	<u>122,772</u>
Total general and administrative	<u>2,765,367</u>	<u>2,780,552</u>
Total operating expenses	<u>38,080,919</u>	<u>64,133,389</u>
Operating income	<u>6,211,696</u>	<u>8,129,035</u>
NON-OPERATING REVENUES (EXPENSES)		
Rental income	238,394	303,812
Investment income	41,972	5,375,065
Other income	<u>848</u>	<u>3,728</u>
Total non-operating income	<u>281,214</u>	<u>5,682,605</u>
Change in net position	6,492,910	13,811,640
Net position, beginning of year	<u>33,675,912</u>	<u>19,864,272</u>
Net position, end of year	<u>\$ 40,168,822</u>	<u>\$ 33,675,912</u>

SCHOOLS EXCESS LIABILITY FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 90,067,015	\$ 31,016,772
Cash paid for claims and settlements	(5,651,134)	(11,873,349)
Cash paid for reinsurance premiums	(17,963,619)	(10,203,106)
Cash paid to suppliers for goods and services	(456,084)	(1,087,259)
Cash paid for employees services	(1,374,639)	(1,352,279)
Net cash provided by operating activities	<u>64,621,539</u>	<u>6,500,779</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	<u>(198,880)</u>	<u>(5,803)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities purchased	(32,498,571)	(29,595,284)
Securities sold and matured	31,186,495	26,993,318
Rental income received	239,242	307,540
Interest received	1,661,595	2,079,292
Net cash provided (used) by investing activities	<u>588,761</u>	<u>(215,134)</u>
Net increase in cash and cash equivalents	65,011,420	6,279,842
Cash and cash equivalents, beginning of year	<u>29,032,168</u>	<u>22,752,326</u>
Cash and cash equivalents, end of year	<u>\$ 94,043,588</u>	<u>\$ 29,032,168</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 6,211,696	\$ 8,129,035
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	121,143	122,772
(Increase) decrease in:		
Member contribution and other receivables	(45,406)	3,284
Member assessments receivable	45,818,123	(41,245,652)
Prepaid expenses	(11,816)	5,361
Deferred outflows of resources	70,929	110,698
Increase (decrease) in:		
Accounts payable and accrued expenses	744,625	80,967
Other liabilities	(33,334)	(33,333)
Net pension liability	68,964	(11,642)
Deferred inflows of resources	(59,201)	32,858
Unpaid claims and claim adjustment expenses	<u>11,735,816</u>	<u>39,306,431</u>
Net cash provided by operating activities	<u>\$ 64,621,539</u>	<u>\$ 6,500,779</u>

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

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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.

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, 2021 and 2020.

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, 2021 AND 2020

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
2019-2021	\$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 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, 2021 AND 2020

SELF does not believe there to be any impairment of its capital assets at June 30, 2021 and 2020.

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, 2021 AND 2020

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 purchased additional insurance which covers losses greater than the limits of SELF's excess coverage. Such additional insurance coverage was offered to members through an Optional Excess Liability coverage (OEL). The OEL premium was reported as part of Member Contributions.

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, 2021 AND 2020

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents:		
Cash on hand and in bank	\$ 500,217	\$ 170,392
Money Market	536,957	513,532
Local Agency Investment Fund	74,827,652	28,297,079
California Asset Management Program	18,178,762	51,165
Total cash and cash equivalents	<u>94,043,588</u>	<u>29,032,168</u>
Investments:		
Corporate Notes	17,056,245	21,168,111
U.S. Agency Bonds	18,159,620	20,016,036
U.S. Treasury Notes	31,597,790	26,974,848
Certificates of deposit	2,725,430	3,804,231
Municipal bonds	6,730,938	3,106,480
Asset-backed securities / collateralized mortgage obligations	2,001,662	3,381,418
Total investments	<u>78,271,685</u>	<u>78,451,124</u>
Total cash, cash equivalents and investments	<u>\$ 172,315,273</u>	<u>\$ 107,483,292</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, 2021 AND 2020

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, 2021 and 2020, 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 or liabilities in active markets that a government can access at the measurement date. |
| 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. Of the bank balances, \$1,176,100 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

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

institution secure deposits made by state or local governmental units by pledging securities in an 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, 2021, the average effective maturity of the investments contained in SELF's pool is approximately 3.20 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, 2021:

<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)	\$ 17,056,245	\$ 3,199,357	\$ 2,311,555	\$ 11,545,333	
U.S. Agency Bonds (Level 1)	18,159,620		2,666,279	13,219,066	\$ 2,274,275
U.S. Treasury Notes (Level 1)	31,597,790	809,052	3,624,617	13,822,187	13,341,934
Certificates of deposit (Level 2)	2,725,430	773,163	1,561,227	391,040	
Municipal bonds (Level 2)	6,730,938		548,523	6,182,415	
Asset-backed securities (Level 2)	<u>2,001,662</u>			<u>2,001,662</u>	
Total	<u>\$ 78,271,685</u>	<u>\$ 4,781,572</u>	<u>\$ 10,712,201</u>	<u>\$ 47,161,703</u>	<u>\$ 15,616,209</u>

The following table that shows the distribution of SELF's investments by maturity as of June 30, 2020:

<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)	\$ 21,168,111	\$ 4,904,768	\$ 9,818,307	\$ 6,445,036	
U.S. Agency Bonds (Level 1)	20,016,036		4,774,107	11,346,057	\$ 3,895,872
U.S. Treasury Notes (Level 1)	26,974,848	50,403	1,559,359	12,030,373	13,334,713
Certificates of deposit (Level 2)	3,804,231	1,435,653	784,921	1,583,657	
Municipal bonds (Level 2)	3,106,480	499,920		2,606,560	
Asset-backed securities (Level 2)	<u>3,381,418</u>		<u>18,473</u>	<u>3,362,945</u>	
Total	<u>\$ 78,451,124</u>	<u>\$ 6,890,744</u>	<u>\$ 16,955,167</u>	<u>\$ 37,374,628</u>	<u>\$ 17,230,585</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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, 2021:

<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	\$ 17,056,245	\$ 4,787,828	\$ 7,129,364	\$ 3,403,544	\$ 1,735,509
U.S. Agency Bonds	18,159,620	16,453,287	1,706,333		
U.S. Treasury Notes	31,597,790	31,597,790			
Certificates of deposit	2,725,430	305,559	85,481		2,334,390
Municipal bonds	6,730,938	6,302,238	428,700		
Asset-backed securities	2,001,662	2,001,662			
Money market	536,957				536,957
LAIF	74,827,652				74,827,652
CAMP	18,178,762				18,178,762
Total	<u>\$171,815,056</u>	<u>\$61,448,364</u>	<u>\$ 9,349,878</u>	<u>\$ 3,403,544</u>	<u>\$ 97,613,270</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, 2020:

<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	\$ 21,168,111	\$ 4,539,501	\$ 14,236,952	\$ 2,391,658	
U.S. Agency Bonds	20,016,036	18,842,601			\$ 1,173,436
U.S. Treasury Notes	26,974,848	26,174,635			800,213
Certificates of deposit	3,804,231		727,899		3,076,332
Municipal bonds	3,106,480	2,171,703	434,857		499,920
Asset-backed securities	3,381,418	3,381,418			
Money market	513,532				513,532
LAIF	28,297,079				28,297,079
CAMP	51,165				51,165
Total	<u>\$107,312,900</u>	<u>\$55,109,857</u>	<u>\$ 15,399,708</u>	<u>\$ 2,391,658</u>	<u>\$ 34,411,677</u>

*Rated A3 by Moody's.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Concentration of Investment Credit Risk

At June 30, 2021 and 2020, SELF's holdings in Federal National Mortgage Association represented 14% and 25% of the portfolio's total invested assets, respectively.

Realized Gains and Losses on Sales of Investments

At June 30, 2021 and 2020, SELF's sales of investments resulted in a realized gain of \$633,028 and a realized gain of \$201,524, 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. At June 30, 2021 and 2020, SELF made no allowance for uncollected accounts as management estimated the accounts to be collectable. The assessments receivable at June 30, 2021 and 2020 are as follows:

Excess Workers' Compensation	<u>2021</u>	<u>2020</u>
Member assessments receivable	\$ 12,701,559	\$ 19,056,840
Less current portion of member assessments receivable	<u>(6,355,281)</u>	<u>(6,355,281)</u>
Member assessments receivable, non-current	<u>\$ 6,346,278</u>	<u>\$ 12,701,559</u>

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 three year period from 2020-21 through 2022-23. At June 30, 2021 and 2020, SELF made no allowance for uncollectable accounts as management estimated the accounts to be collectable. The assessments receivable at June 30, 2021 and 2020 are as follows:

Excess Liability	<u>2021</u>	<u>2020</u>
Member assessments receivable	\$ 7,137,158	\$ 46,600,000
Less current portion of member assessments receivable	<u>(3,759,196)</u>	<u>(15,533,333)</u>
Member assessments receivable, non-current	<u>\$ 3,377,962</u>	<u>\$ 31,066,667</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2021 was as follows:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2021</u>
Investment in building	\$ 3,196,332	\$ 138,691		\$ 3,335,023
Equipment	<u>378,687</u>	<u>60,189</u>		<u>438,876</u>
Total	3,575,019	198,880		3,773,899
Less accumulated depreciation	<u>(2,544,771)</u>	<u>(121,143)</u>		<u>(2,665,914)</u>
Capital assets - net	<u>\$ 1,030,248</u>	<u>\$ 77,737</u>	<u>\$</u>	<u>\$ 1,107,985</u>

Capital assets activity for the year ended June 30, 2020 was as follows:

	<u>Balance at June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2020</u>
Investment in building	\$ 3,190,529	\$ 5,803		\$ 3,196,332
Equipment	<u>378,687</u>			<u>378,687</u>
Total	3,569,216	5,803		3,575,019
Less accumulated depreciation	<u>(2,421,999)</u>	<u>(122,772)</u>		<u>(2,544,771)</u>
Capital assets - net	<u>\$ 1,147,217</u>	<u>\$ (116,969)</u>	<u>\$</u>	<u>\$ 1,030,248</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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>2021</u>	<u>2020</u>
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 140,189,693	\$ 100,883,262
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current year	13,047,100	10,153,378
Increase in provision for insured events of prior years	4,338,167	41,029,686
Total incurred losses and loss adjustment expenses	<u>17,385,267</u>	<u>51,183,064</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	5,649,451	11,648,438
Total payments	<u>5,649,451</u>	<u>11,648,438</u>
Total unpaid losses and loss adjustment expenses, end of fiscal year	<u>\$ 151,925,509</u>	<u>\$ 140,189,693</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Reported claims	\$ 68,730,509	\$ 62,884,657
Claims incurred but not reported (IBNR)	70,298,000	64,629,036
Unallocated loss adjustment expenses (ULAE)	<u>12,897,000</u>	<u>12,676,000</u>
Total unpaid claims and claim adjustment expenses	151,925,509	140,189,693
Unpaid claims and claim adjustment expenses, current	<u>(27,214,000)</u>	<u>(25,125,000)</u>
Unpaid claims and claim adjustment expenses, noncurrent	<u>\$ 124,711,509</u>	<u>\$ 115,064,693</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, 2021 and 2020. The undiscounted liability at June 30, 2021 and 2020 was \$170,889,890 and \$160,689,899, respectively.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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, 2013 and 2014 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, 2020 (the measurement date) was 11.746% and 7.874% 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, 2021, the employer contributions to the plan were \$142,249.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

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, 2020 for the year ended June 30, 2021. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. As of June 30, 2021, SELF's proportionate share of the Plan's NPL was \$718,386.

The NPL of the Plan is measured as of June 30, 2019 for the year ended June 30, 2020. The total TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. As of June 30, 2020, SELF's proportionate share of the Plan's NPL was \$649,422.

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, 2020 was as follows:

	<u>Plan</u>
Proportion - June 30, 2020	0.017031%
Proportion - June 30, 2019	<u>0.016217%</u>
Change - increase (decrease)	<u>0.000814%</u>

For the years ended June 30, 2021 and 2020, SELF recognized pension expense of \$222,941 and \$256,376, respectively.

At June 30, 2021, 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	\$ 37,021	
Changes in assumptions		\$ (5,124)
Net differences between projected and actual investment earnings of pension plan investments	21,341	
Change in proportions	1,237	
Change in proportionate share of contributions	39,706	
Pension contributions subsequent to measurement date	<u>142,249</u>	
Total	<u>\$ 241,554</u>	<u>\$ (5,124)</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

As of June 30, 2021, the \$142,249 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, 2022. As of June 30, 2021, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

**Year Ended
June 30**

2022	\$	36,312
2023		32,154
2024		15,479
2025		10,236

At June 30, 2020, 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	\$ 45,105	\$ (3,495)
Changes in assumptions	30,967	(10,978)
Net differences between projected and actual investment earnings of pension plan investments		(11,354)
Change in proportions		(38,498)
Change in proportionate share of contributions	111,949	
Pension contributions subsequent to measurement date	<u>124,462</u>	<u></u>
Total	<u>\$ 312,483</u>	<u>\$ (64,325)</u>

As of June 30, 2020, the \$124,462 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, 2021. As of June 30, 2020, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

**Year Ended
June 30**

2021	\$	95,859
2022		16,115
2023		9,428
2024		2,294

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

Actuarial Assumptions

For the measurement period ended June 30, 2020 (the measurement date), the TPL was determined by rolling forward the June 30, 2019 TPL. The June 30, 2019 and June 30, 2020 TPL were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
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 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter.

⁽¹⁾ The mortality table used was developed based on CalPERS-specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016.

Discount Rate

The discount rate used to measure the total pension liability for PERF C was 7.15% and reflects the long-term expected rate of return for the Plan net of investment expenses and without reduction for administrative expenses. To determine whether the municipal bond rate should be used in the calculation of the discount rate for public agency plans (including PERF C), the amortization and smoothing periods adopted by the Board in 2013 were used. For the Plan, the crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for PERF C. The crossover test results can be found on CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class^(a)	New Strategic Allocation	Real Return Years 1 – 10^(b)	Real Return Years 11+^(c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

^(a) In the System's CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

^(b) An expected inflation of 2.0% was used for this period.

^(c) An expected inflation of 2.92% was used for this period.

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, 2020 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	\$ 1,306,052	\$ 718,386	\$ 223,816

The following presents SELF's Proportional Share of the NPL of the Plan as of the June 30, 2019 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	\$ 1,203,840	\$ 649,422	\$ 191,788

SCHOOLS EXCESS LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

7. CONTINGENCY

SELF is a party to litigation regarding the 2020 AB218 member assessment. SELF does not anticipate and is unable to estimate any adverse financial consequence as a result of the outstanding litigation.

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOLS EXCESS LIABILITY FUND

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS LIABILITY PROGRAM FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 79,391,419	\$ 35,212,794
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year	13,047,100	10,153,378
Change in provision for covered events of prior years	<u>6,987,774</u>	<u>43,371,684</u>
Total incurred claims and claim adjustment expenses	<u>20,034,874</u>	<u>53,525,062</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>3,243,842</u>	<u>9,346,437</u>
Total payments	<u>3,243,842</u>	<u>9,346,437</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 96,182,451</u>	<u>\$ 79,391,419</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2021 and 2020 were as follows:

Reported claims	\$ 31,927,451	\$ 22,869,383
Claims incurred but not reported	61,023,000	53,895,036
Unallocated loss adjustment expenses	<u>3,232,000</u>	<u>2,627,000</u>
	<u>\$ 96,182,451</u>	<u>\$ 79,391,419</u>

SCHOOLS EXCESS LIABILITY FUND

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS WORKERS' COMPENSATION PROGRAM FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ <u>60,798,274</u>	\$ <u>65,670,468</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year		
Change in provision for covered events of prior years	<u>(2,649,607)</u>	<u>(2,341,998)</u>
Total incurred claims and claim adjustment expenses	<u>(2,649,607)</u>	<u>(2,341,998)</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>2,405,609</u>	<u>2,530,196</u>
Total payments	<u>2,405,609</u>	<u>2,530,196</u>
Total unpaid claims and claim adjustment expenses, end of year	\$ <u>55,743,058</u>	\$ <u>60,798,274</u>
The components of the unpaid claims and claim adjustment expenses as of June 30, 2021 and 2020 were as follows:		
Reported claims	\$ 36,803,058	\$ 40,015,274
Claims incurred but not reported	9,275,000	10,734,000
Unallocated loss adjustment expenses	<u>9,665,000</u>	<u>10,049,000</u>
	<u>\$ 55,743,058</u>	<u>\$ 60,798,274</u>

SCHOOLS EXCESS LIABILITY FUND

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2021 AND 2020

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, 2021 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, 2021

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
(1) Premiums Revenue:										
Earned	\$ 10,817	\$ 9,829	\$ 9,874	\$ 10,294	\$ 10,982	\$ 14,352	\$ 15,074	\$ 21,097	\$ 72,262	\$ 44,293
Ceded (by policy year)	(8,296)	(6,610)	(6,602)	(7,061)	(7,401)	(8,221)	(7,899)	(8,247)	(10,170)	(17,930)
Cumulative interest earned (by policy year)	57	57	31	566	820	29	62	1,362	1,357	291
Net earned contribution and investment income	<u>2,578</u>	<u>3,276</u>	<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>63,450</u>	<u>26,654</u>
(2) Unallocated Expenses	\$ 1,369	\$ 1,265	\$ 1,473	\$ 1,504	\$ 1,524	\$ 1,371	\$ 1,474	\$ 1,876	\$ 1,935	\$ 2,083
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	\$ 3,652	\$ 5,697	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844	\$ 6,412	\$ 7,866	\$ 10,911	\$ 14,025
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	<u>3,652</u>	<u>5,697</u>	<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>
(4) Paid (Cumulative) as of:										
End of Policy Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One Year Later	-	-	-	5,000	-	9	-	7	-	-
Two Years Later	-	2,761	580	8,500	-	1,332	849	7	-	-
Three Years Later	-	2,760	844	13,362	6	9,792	849	-	-	-
Four Years Later	2,600	2,763	6,114	19,362	6	10,719	-	-	-	-
Five Years Later	4,604	2,766	6,114	19,362	6	-	-	-	-	-
Six Years Later	4,604	2,766	6,114	19,362	-	-	-	-	-	-
Seven Years Later	4,604	2,766	6,114	-	-	-	-	-	-	-
Eight Years Later	4,604	2,804	-	-	-	-	-	-	-	-
Nine Years Later	4,604	-	-	-	-	-	-	-	-	-
(5) Re-estimated Ceded Losses and Expenses	\$ -	\$ -	\$ -	\$ 3,778	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(6) Re-estimated incurred claims and expenses:										
End of Policy Year	\$ 3,652	\$ 5,697	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844	\$ 6,412	\$ 7,866	\$ 10,911	\$ 14,025
One Year Later	2,210	4,826	3,645	8,475	4,653	5,580	7,439	7,282	9,636	-
Two Years Later	1,244	3,706	9,266	16,686	4,094	17,545	7,187	4,957	-	-
Three Years Later	5,344	4,173	6,354	22,256	1,960	24,895	6,387	-	-	-
Four Years Later	5,942	4,088	7,847	20,632	2,270	22,727	-	-	-	-
Five Years Later	5,468	3,772	6,936	21,061	2,006	-	-	-	-	-
Six Years Later	5,270	3,292	7,394	20,820	-	-	-	-	-	-
Seven Years Later	4,962	4,830	7,263	-	-	-	-	-	-	-
Eight Years Later	5,521	5,553	-	-	-	-	-	-	-	-
Nine Years Later	5,486	-	-	-	-	-	-	-	-	-
(7) Increase (Decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ 1,834</u>	<u>\$ (144)</u>	<u>\$ 4,523</u>	<u>\$ 18,140</u>	<u>\$ (3,078)</u>	<u>\$ 16,883</u>	<u>\$ (25)</u>	<u>\$ (2,909)</u>	<u>\$ (1,275)</u>	<u>\$ -</u>
(8) Unpaid claims and claim adjustment expenses with ULAE	<u>\$ 882</u>	<u>\$ 2,749</u>	<u>\$ 1,149</u>	<u>\$ 1,458</u>	<u>\$ 2,000</u>	<u>\$ 12,008</u>	<u>\$ 5,538</u>	<u>\$ 4,950</u>	<u>\$ 9,636</u>	<u>\$ 14,025</u>

SCHOOLS EXCESS LIABILITY FUND

SCHEDULE OF SELF'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2021 LAST 10 YEARS*

<i>Measurement Date Ended June 30:</i>	<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	0.01703%	0.01622%	0.01754%	0.01993%	0.01947%	0.01933%	0.02193%
SELF's proportionate share of the net pension liability	\$ 718,386	\$ 649,422	\$ 661,064	\$ 785,612	\$ 676,383	\$ 530,238	\$ 542,029
SELF's covered employee payroll	\$ 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	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	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, 2020, 2019, 2018, 2017, 2016, 2015 and 2014, there were no changes to the benefit terms.

Changes in assumptions – In 2018, the inflation rate was decreased from 2.75% to 2.50%. In 2017, the financial reporting discount for the PERF C was lowered from 7.65% to 7.15%. There were no changes in assumptions for the measurement dates ended June 30, 2020, 2019, 2016, 2015, and 2014.

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

SCHOOLS EXCESS LIABILITY FUND

SCHEDULE OF SELF'S CONTRIBUTIONS

AS OF JUNE 30, 2021

LAST 10 YEARS*

<i>Fiscal Year Ended June 30:</i>	<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)	\$ 142,249	\$ 124,462	\$ 206,552	\$ 236,978	\$ 116,083	\$ 105,452	\$ 80,717
Contributions in relation to the contractually required contributions	<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>
SELF's covered-employee payroll	\$ 975,223	\$ 1,005,729	\$ 1,118,047	\$ 883,549	\$ 850,014	\$ 783,263	\$ 561,000
Contributions as a percentage of covered-employee payroll	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 seven years are shown.

ADDITIONAL INFORMATION

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF NET POSITION JUNE 30, 2021

	<u>Excess Liability</u>	<u>AB-218 Only</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 41,886,370	\$ 34,081,099	\$ 17,364,877	\$ 711,242	\$ 94,043,588
Investments	3,213,516		1,568,056		4,781,572
Accounts receivable:					
Interest and other	128,296	24,262	203,242	7,442	363,242
Member assessments receivable		3,759,196	6,355,281		10,114,477
Prepaid expenses	6,643	4,572	1,714	3,876	16,805
Total current assets	<u>45,234,825</u>	<u>37,869,129</u>	<u>25,493,170</u>	<u>722,560</u>	<u>109,319,684</u>
Noncurrent assets:					
Investments	18,858,158		54,631,955		73,490,113
Member assessments receivable		3,377,962	6,346,278		9,724,240
Capital assets, net	61,790		3,600	1,042,595	1,107,985
Total noncurrent assets	<u>18,919,948</u>	<u>3,377,962</u>	<u>60,981,833</u>	<u>1,042,595</u>	<u>84,322,338</u>
Total assets	<u>64,154,773</u>	<u>41,247,091</u>	<u>86,475,003</u>	<u>1,765,155</u>	<u>193,642,022</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources related to pensions	<u>172,218</u>		<u>76,600</u>	<u>(7,264)</u>	<u>241,554</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	898,049	58,438	42,149	7,396	1,006,032
Other liabilities	26,370		33,333		59,703
Unpaid claims and claim adjustment expenses	4,400,000	18,500,000	4,314,000		27,214,000
Total current liabilities	<u>5,324,419</u>	<u>18,558,438</u>	<u>4,389,482</u>	<u>7,396</u>	<u>28,279,735</u>
Noncurrent liabilities:					
Other liabilities					
Net pension liability	512,911		203,181	2,294	718,386
Unpaid claims and claim adjustment expenses	37,128,451	36,154,000	51,429,058		124,711,509
Total noncurrent liabilities	<u>37,641,362</u>	<u>36,154,000</u>	<u>51,632,239</u>	<u>2,294</u>	<u>125,429,895</u>
Total liabilities	<u>42,965,781</u>	<u>54,712,438</u>	<u>56,021,721</u>	<u>9,690</u>	<u>153,709,630</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources related to pensions	<u>(10,040)</u>		<u>16,218</u>	<u>(1,054)</u>	<u>5,124</u>
NET POSITION					
Net investment in capital assets	61,790		3,600	1,042,595	1,107,985
Unrestricted	21,309,460	(13,465,347)	30,510,064	706,660	39,060,837
Total net position	<u>\$ 21,371,250</u>	<u>\$(13,465,347)</u>	<u>\$ 30,513,664</u>	<u>\$ 1,749,255</u>	<u>\$ 40,168,822</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF NET POSITION JUNE 30, 2020

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 14,627,139	\$ 13,608,221	\$ 796,808	\$ 29,032,168
Investments	3,817,866	3,072,878		6,890,744
Accounts receivable:				
Interest and other	157,726	285,665	2,553	445,944
Member assessments receivable	15,533,333	6,355,281		21,888,614
Prepaid expenses	1,500		3,489	4,989
Total current assets	<u>34,137,564</u>	<u>23,322,045</u>	<u>802,850</u>	<u>58,262,459</u>
Noncurrent assets:				
Investments	18,056,961	53,503,419		71,560,380
Member assessments receivable	31,066,667	12,701,559		43,768,226
Capital assets, net	5,247	2,509	1,022,492	1,030,248
Total noncurrent assets	<u>49,128,875</u>	<u>66,207,487</u>	<u>1,022,492</u>	<u>116,358,854</u>
Total assets	<u>83,266,439</u>	<u>89,529,532</u>	<u>1,825,342</u>	<u>174,621,313</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	<u>222,578</u>	<u>94,332</u>	<u>(4,427)</u>	<u>312,483</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	205,867	40,382	15,158	261,407
Other liabilities	26,370	33,333		59,703
Unpaid claims and claim adjustment expenses	20,811,000	4,314,000		25,125,000
Total current liabilities	<u>21,043,237</u>	<u>4,387,715</u>	<u>15,158</u>	<u>25,446,110</u>
Noncurrent liabilities:				
Other liabilities		33,334		33,334
Net pension liability	463,947	185,940	(465)	649,422
Unpaid claims and claim adjustment expenses	58,580,419	56,484,274		115,064,693
Total noncurrent liabilities	<u>59,044,366</u>	<u>56,703,548</u>	<u>(465)</u>	<u>115,747,449</u>
Total liabilities	<u>80,087,603</u>	<u>61,091,263</u>	<u>14,693</u>	<u>141,193,559</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	<u>31,993</u>	<u>31,018</u>	<u>1,314</u>	<u>64,325</u>
NET POSITION				
Net investment in capital assets	5,247	2,509	1,022,492	1,030,248
Unrestricted	3,364,174	28,499,074	782,416	32,645,664
Total net position	<u>\$ 3,369,421</u>	<u>\$ 28,501,583</u>	<u>\$ 1,804,908</u>	<u>\$ 33,675,912</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2021

	<u>Excess Liability</u>	<u>AB-218 Only</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
OPERATING REVENUE					
Member contributions	\$ 45,360,516				\$ 45,360,516
Less: discounts		\$ (1,067,901)			(1,067,901)
Total operating revenues	<u>45,360,516</u>	<u>(1,067,901)</u>			<u>44,292,615</u>
OPERATING EXPENSES					
Provision for unpaid claims and claim adjustment expenses	7,908,522	12,126,352	\$ (2,649,607)		17,385,267
Commercial reinsurance premiums	<u>17,930,285</u>				<u>17,930,285</u>
Total direct claims expenses	<u>25,838,807</u>	<u>12,126,352</u>	<u>(2,649,607)</u>		<u>35,315,552</u>
General and administrative expenses:					
Contract services	220,806	317,427	92,815	\$ 201	631,249
Personnel costs	579,861	604,698	238,580	76,524	1,499,663
Administrative expenses	242,530	115,954	52,612	267	411,363
Building				101,949	101,949
Depreciation	<u>1,789</u>		<u>766</u>	<u>118,588</u>	<u>121,143</u>
Total general and administrative	<u>1,044,986</u>	<u>1,038,079</u>	<u>384,773</u>	<u>297,529</u>	<u>2,765,367</u>
Total operating expenses	<u>26,883,793</u>	<u>13,164,431</u>	<u>(2,264,834)</u>	<u>297,529</u>	<u>38,080,919</u>
Operating income (loss)	<u>18,476,723</u>	<u>(14,232,332)</u>	<u>2,264,834</u>	<u>(297,529)</u>	<u>6,211,696</u>
NON-OPERATING REVENUES (EXPENSES)					
Rental income				238,394	238,394
Investment income (loss)	240,767	50,620	(252,897)	3,482	41,972
Other income	<u>339</u>	<u>365</u>	<u>144</u>		<u>848</u>
Total non-operating income (loss)	<u>241,106</u>	<u>50,985</u>	<u>(252,753)</u>	<u>241,876</u>	<u>281,214</u>
Change in net position	18,717,829	(14,181,347)	2,012,081	(55,653)	6,492,910
Net position, beginning of year	<u>2,653,421</u>	<u>716,000</u>	<u>28,501,583</u>	<u>1,804,908</u>	<u>33,675,912</u>
Net position, end of year	<u>\$ 21,371,250</u>	<u>\$(13,465,347)</u>	<u>\$ 30,513,664</u>	<u>\$ 1,749,255</u>	<u>\$ 40,168,822</u>

SCHOOLS EXCESS LIABILITY FUND

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2020

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
OPERATING REVENUE				
Member contributions	\$ 25,662,424			\$ 25,662,424
Member assessment	46,600,000			46,600,000
Total operating revenues	<u>72,262,424</u>			<u>72,262,424</u>
OPERATING EXPENSES				
Provision for unpaid claims and claim adjustment expenses	53,525,062	\$ (2,341,998)		51,183,064
Commercial reinsurance premiums	10,169,773			10,169,773
Total direct claims expenses	<u>63,694,835</u>	<u>(2,341,998)</u>		<u>61,352,837</u>
General and administrative expenses:				
Contract services	466,790	69,549		536,339
Personnel costs	1,035,050	368,621	\$ 81,849	1,485,520
Administrative expenses	428,753	107,419	2,195	538,367
Building			97,554	97,554
Depreciation	4,700	2,015	116,057	122,772
Total general and administrative	<u>1,935,293</u>	<u>547,604</u>	<u>297,655</u>	<u>2,780,552</u>
Total operating expenses	<u>65,630,128</u>	<u>(1,794,394)</u>	<u>297,655</u>	<u>64,133,389</u>
Operating income (loss)	<u>6,632,296</u>	<u>1,794,394</u>	<u>(297,655)</u>	<u>8,129,035</u>
NON-OPERATING REVENUES (EXPENSES)				
Rental income			303,812	303,812
Investment income	1,357,313	4,007,479	10,273	5,375,065
Other income	1,210	518	2,000	3,728
Total non-operating revenues (expenses)	<u>1,358,523</u>	<u>4,007,997</u>	<u>316,085</u>	<u>5,682,605</u>
Change in net position	7,990,819	5,802,391	18,430	13,811,640
Net position, beginning of year	<u>(4,621,398)</u>	<u>22,699,192</u>	<u>1,786,478</u>	<u>19,864,272</u>
Net position, end of year	<u>\$ 3,369,421</u>	<u>\$ 28,501,583</u>	<u>\$ 1,804,908</u>	<u>\$ 33,675,912</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, 2021, and the related notes to the financial statements, which collectively comprise SELF's basic financial statements, and have issued our report thereon dated February 1, 2022.

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. However, material weaknesses may exist that have not been identified.

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*.

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

February 1, 2022