

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2022 AND 2021**

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2022

Member	Representative	Office
Mountain View-Los Altos Union HS District	Mike Mathiesen	President
Santa Clara Unified School District	Mark Schiel	Vice President
Los Gatos-Saratoga Joint Union HS District	Delores Perley	Treasurer
Mountain View Whisman School District	Rebecca Westover	Secretary
Milpitas Unified School District	Wendy Zhang	Member at Large
Berryessa Union School District	Kevin Franklin	Member
Campbell Union School District	Nelly Yang	Member
Evergreen School District	Victoria Knutson	Member
Lakeside Joint School District	Sean Joyce	Member
Los Altos School District	Erik Walukiewicz	Member
Metropolitan Education District	Dorothy Reconose	Member
Santa Clara County Office of Education	Stephanie Gomez	Member

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Bay Area Schools Insurance Authority
Sacramento, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Net Position of South Bay Area Schools Insurance Authority (SBASIA) as of and for the years ended June 30, 2022 and 2021, and the related Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for the fiscal years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the South Bay Area Schools Insurance Authority, as of June 30, 2022 and 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. 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 South Bay Area Schools Insurance Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

South Bay Area Schools Insurance Authority's 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 South Bay Area Schools Insurance Authority'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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of South Bay Area Schools Insurance Authority'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 South Bay Area Schools Insurance Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

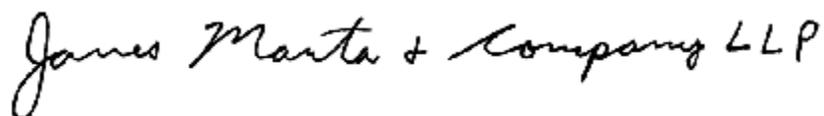
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Claims Development Information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SBASIA's basic financial statements. The Graphical Summary of Claims 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is 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 November 21, 2022 on our consideration of South Bay Area Schools Insurance Authority'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 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 South Bay Area Schools Insurance Authority's internal control over financial reporting and compliance.



James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 21, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

The following narrative provides an overview and analysis of the financial activities of South Bay Area Schools Insurance Authority (SBASIA) for the fiscal year ending June 30, 2022. It is provided in order to enhance the information in the financial audit and should be reviewed with that report.

Financial Highlights

- Total operating revenues were \$8,382,532, an increase of 28.3 percent over the prior year.
- Total interest income was \$29,415, a decrease of 40.9 percent from the prior year.
- Total expenses were \$7,349,857, an increase of 4.5 percent from the prior year.
- Total assets increased by 16.08 percent to \$9,027,873.
- Total liabilities increased by 2.97 percent to \$6,546,199.
- Total net position (equity) increased by 74.8 percent to \$2,481,674.

Description of the Basic Financial Statements

SBASIA's financial statements are prepared in conformity with generally accepted accounting principles including amounts established based upon reliable estimates and judgments. The Statement of Net Position presents the assets and liabilities with the difference representing the net position. The Statement of Revenues, Expenses and Changes in Net Position presents the revenue and expenses for the year and discloses the changes in net position, or pool equity, during the fiscal year. All income and expenses are reported in the statement as soon as the underlying event causing a change occurs regardless of the related cash flow. Thus, uncollected income will be reflected in the Statement of Net Position as an accounts receivable and an unpaid expense will be recognized as a liability.

The Statement of Cash Flows is being presented by listing the cash inflow by category and all cash outflow by category to achieve the change over the year in cash as well as the ending cash balance. The Statement of Cash Flows also reconciles operating income to operating cash flows.

James Marta & Company, Certified Public Accountants, performed an independent audit of SBASIA's financial statements and found them to be in accordance with accounting principles generally accepted in the United States of America. Bickmore Actuarial provided an independent analysis of SBASIA claims and projected the outstanding liabilities for unpaid claims used in SBASIA's financial statements.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

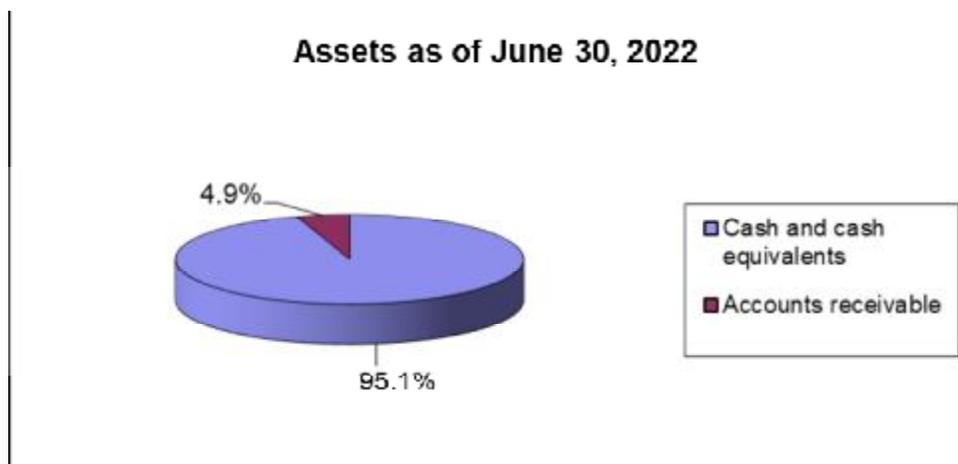
JUNE 30, 2022 AND 2021

Condensed Statement of Net Position

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	% Change June 30, 2021 to June 30, 2022	<u>June 30, 2020</u>	% Change June 30, 2020 to June 30, 2021
Assets	9,027,873	7,776,989	16.08%	6,963,096	11.69%
Total Assets					
Liabilities					
Total Current Liabilities	900,000	900,000	0%	650,000	38.46%
Total Long-Term Liabilities	5,642,129	5,457,405	3.38%	4,446,301	22.74%
Total Liabilities	<u>6,546,199</u>	<u>6,357,405</u>	2.97%	<u>5,096,301</u>	24.75%
Net position					
Net position	<u>\$ 2,481,674</u>	<u>\$ 1,419,584</u>	74.82%	<u>1,866,795</u>	(23.96%)

SBASIA Pool Assets

SBASIA assets are considered current assets and are invested through the investment pool run by the County of Santa Clara. There is also an account with Bank of America to pay operating expenses. The accounts receivable represents primarily deductibles that the members owe to SBASIA for claims incurred by the members. The types of assets as a percentage of the total assets are as follows:



Investments and cash have increased by 23.69 percent from prior year, from \$6,940,075 to \$8,583,838.

Accounts receivable has decreased by 46.94 percent from prior year, from \$836,914 to \$444,035.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

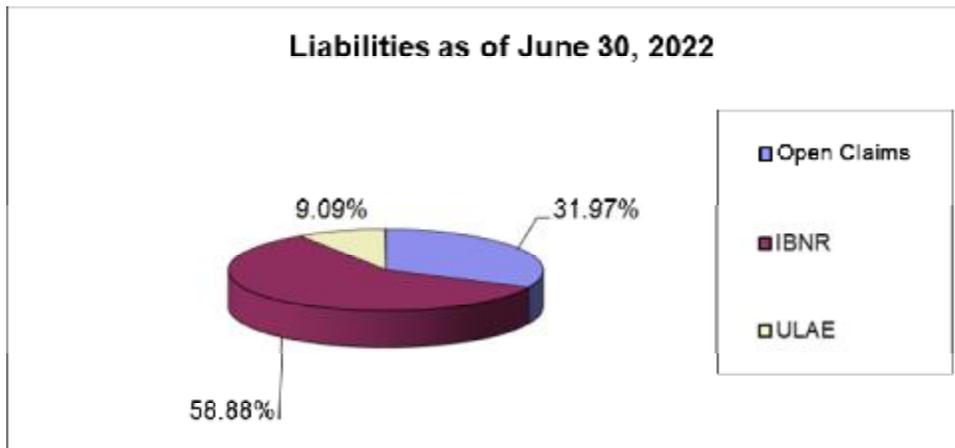
MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

SBASIA Pool Liabilities

The pool liabilities consist primarily of expected future payments of claims. An actuarial study is performed to determine, as accurately as possible, the liabilities expected in the future. These liabilities are discounted to recognize the funds needed as of June 30, 2022 to meet the payments in the future from these funds plus interest earned on the funds prior to being expended. These liabilities are broken down into Open Claims, that is the amount anticipated by the claim’s adjuster needed before the claim is closed, ULAE (unallocated loss adjustment expenses such as claims adjusters’ salaries), that is the amount to administer claims to final settlement which may be years in the future, and IBNR (incurred but not reported).

The following pie chart indicates the percentages that each liability represents to the total liabilities of \$6,546,199:



Open claims have decreased by 3.67 percent from the prior year, from \$2,172,318 to \$2,092,542.
IBNR has increased by 6.86 percent over prior year, from \$3,607,087 to \$3,854,587.
ULAE has increased by 2.94 percent over prior year, from \$578,000 to \$595,000.
Accounts payable has increased from \$0 the prior year to \$4,070.

Net position

The net position as of June 30, 2022 was \$2,481,674, an increase of \$1,062,090. The net position is segregated into Contingency Reserve and Undesignated Reserve. The Contingency Reserve represents funds designated to fund an unexpected fiscal drain due to losses as well as to provide SBASIA the ability to react to escalating insurance costs by increasing the amount retained in the pool.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

	June 30, 2022	June 30, 2021	Change June 30, 2021 to June 30, 2022	June 30, 2020	Change June 30, 2020 to June 30, 2021
Contingency Reserve	\$ 2,481,674	\$ 1,419,584	\$ 1,062,090	\$ 1,866,795	\$ (447,211)
Undesignated	-	-	-	-	-
Total Net Position	<u>\$ 2,481,674</u>	<u>\$ 1,419,584</u>	<u>\$ 1,062,090</u>	<u>\$ 1,866,795</u>	<u>\$ (447,211)</u>

Condensed Statement of Revenues, Expenses & Changes in Net position

	June 30, 2022	June 30, 2021	% Change June 30, 2021 to June 30, 2022	June 30, 2020	% Change June 30, 2020 to June 30, 2021
Revenue					
Total Revenues	\$ 8,411,947	\$ 6,585,657	27.7%	\$ 5,240,861	25.7%
Expenses					
Total Expenses	<u>7,349,857</u>	<u>7,032,868</u>	4.5%	<u>4,654,170</u>	51.1%
Net Income	<u>\$ 1,062,090</u>	<u>\$ (447,211)</u>	337.5%	<u>\$ 586,691</u>	(176.2%)

Revenue and Expenses

Revenues consist primarily of member contributions, with interest income only representing about 0.35 percent of the total revenues. The revenues exceeded expenses by \$1,062,090. Total Operating Revenues increased by 28.3 percent from the prior year's revenues and Total Operating Expenses increased by 4.5 percent.

Claims expenses decreased by 37.2 percent from last year's claims expenses. Claims expenses for the year can be broken down into four different components. First is the actual cash payments for claims. This year the amount paid was \$1,249,754. The second component is the change in reserves established on known claims. This year the reserves decreased by \$79,776. The third component is the change in accounts receivable. This year the receivables decreased by \$392,879. Finally, the fourth component is the change in actuarially determined amounts in excess of known reserves to recognize the unanticipated changes in known claims as well as recognition of claims incurred but not yet reported (IBNR). This change was an increase of \$247,500. The total costs of claims for the year ending June 30, 2022, was \$1,417,478.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

Self-insurance Program Structure

The program of SBASIA provides Liability, Property and Crime insurance to its members and itself. SBASIA self-insures a portion of the losses and purchases excess coverage to protect the pool against unusually large or catastrophic claims. To put some direct financial impact to the members and to eliminate the pool oversight of smaller claims, SBASIA’s program instituted deductibles of \$10,000 for Liability and Property and \$5,000 for Crime. The structures of the coverages in the program can be depicted as follows:

LIABILITY	PROPERTY	CRIME
<p><i>Schools Excess Liability Fund (SELF)</i></p> <p>EXCESS LIABILITY</p> <p>\$50,000,000 EXCESS OF \$5,000,000</p>	<p><i>Public Entity Property Insurance Program (PEPIP)</i></p> <p>\$500,000,000 EXCESS OF \$500,000</p>	<p><i>National Union Fire Insurance Company of Pittsburgh, PA</i></p> <p>\$3,000,000 per occurrence Limit:</p> <ul style="list-style-type: none"> • Employee Theft-Per Loss • Forgery or Alteration • Inside the Premises-Theft of Money & Securities • Inside the Premises-Robbery & Safe Burglary of Other Property • Outside the Premises • Computer Fraud • Funds Transfer Fraud • Money Orders & Counterfeit Money
<p><i>Public Risk Innovation, Solutions, and Management (PRISM)</i></p> <p>GENERAL LIABILITY PROGRAM I</p> <p>\$4,750,000 EXCESS OF \$250,000</p>	<p>INCLUDES BOILER & MACHINERY \$100,000,000</p> <p>REPLACEMENT COST</p>	
<p>SBASIA Shared Risk \$240,000 over Deductible</p>	<p>SBASIA Shared Risk* \$490,000 over Deductible</p>	<p>SBASIA Shared Risk does not apply to Crime</p>
<p>District Deductible \$10,000</p>	<p>District Deductible \$10,000</p>	<p>District Deductible \$5,000</p>

*Shared Risk does not apply to Boiler & Machinery

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2022 AND 2021

Conclusion

SBASIA funds at 80 percent confidence level to meet the requirements of expected future liabilities based on actuarial projections. SBASIA investments are liquid since they are invested through the treasury pool provided by the County of Santa Clara. Future results will be largely dependent on whether Liability claim payments continue to increase for school districts.

FINANCIAL STATEMENTS

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 8,583,838	\$ 6,940,075
Accounts receivable	444,035	836,914
Total Assets	<u>9,027,873</u>	<u>7,776,989</u>
LIABILITIES		
Current Liabilities		
Accounts payable	4,070	-
Current portion of claim liabilities	900,000	900,000
Total Current Liabilities	<u>904,070</u>	<u>900,000</u>
Noncurrent Liabilities		
Claim liabilities	5,642,129	5,457,405
Total Liabilities	<u>6,546,199</u>	<u>6,357,405</u>
NET POSITION		
Net Position	<u>\$ 2,481,674</u>	<u>\$ 1,419,584</u>

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Contributions	<u>\$ 8,382,532</u>	<u>\$ 6,535,860</u>
Operating Expenses		
Insurance premiums	5,463,998	4,298,097
Claims expense	1,417,478	2,256,202
Contract administration	238,403	238,000
Other operating expenses	<u>229,978</u>	<u>240,569</u>
Total Operating Expenses	<u>7,349,857</u>	<u>7,032,868</u>
Operating Income/(Loss)	1,032,675	(497,008)
Nonoperating Income		
Investment income	<u>29,415</u>	<u>49,797</u>
Change in Net Position	1,062,090	(447,211)
Beginning Net Position	1,419,584	1,866,795
Ending Net Position	<u><u>\$ 2,481,674</u></u>	<u><u>\$ 1,419,584</u></u>

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

STATEMENTS OF CASH FLOWS

JUNE 30, 2022 AND 2021

	2022	2021
Cash Flows From Operating Activities		
Contributions received	\$ 8,382,532	\$ 6,535,860
Claims and claim adjustment expenses paid	(835,805)	(12,756)
Insurance premiums paid	(5,463,998)	(4,298,097)
General and administrative expenses paid	(468,381)	(478,569)
Net Cash Flows Provided (Used) by Operating Activities	1,614,348	1,746,438
 Cash Flows From Investing Activities		
Investment income received	29,415	49,797
Net Cash Flows Provided by Investing Activities	29,415	49,797
 Beginning Cash and Cash Equivalents	6,940,075	5,143,840
Ending Cash and Cash Equivalents	\$ 8,583,838	\$ 6,940,075
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating income (Loss)	\$ 1,032,675	\$ (497,008)
Adjustments to reconcile operating income (loss) to net cash provided (used)		
by operating activities		
(Increase) decrease in:		
Accounts receivable	392,879	982,342
Increase (decrease) in:		
Claims liabilities	184,724	1,261,104
Net Cash Provided (Used) by Operating Activities	\$ 1,614,348	\$ 1,746,438

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

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The South Bay Area Schools Insurance Authority (The “Authority”) was organized in accordance with Title I, Division 7, Chapter 5, Article I of the Government Code of the State of California. The purpose of the Authority is to jointly establish, operate, and maintain a self-insurance program for liability and property damage protection.

The participating districts as of June 30, 2022 are as follows:

Berryessa Union School District
Campbell Union School District
Evergreen School District
Lakeside Joint School District
Los Altos School District
Los Gatos-Saratoga Joint Union High School District
Metropolitan Education District
Milpitas Unified School District
Mountain View-Los Altos Union High School District
Mountain View-Whisman School District
Santa Clara County Office of Education
Santa Clara Unified School District

B. Admission and Withdrawal of Members

Under the Authority’s Joint Powers Agreement, new members may be admitted by a majority vote of the Board of Directors. Upon entry into the Authority, members may not voluntarily withdraw for a period of three years. Members must submit a written notice of preliminary intent to withdraw by October 1 of the calendar year prior to the effective date of withdrawal and provide a written final notice of withdrawal prior to December 15 following the preliminary notice. In all cases, withdrawal shall be effective on the following June 30. Members may be expelled by a majority vote. The effect of withdrawal does not terminate the responsibility of the member for any unpaid premiums and debts or assessments levied against its years of participation.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

C. Description of Programs

Pursuant to a Joint Powers Agreement authorized under California Government Code sections 990, 990.4, 990.8 and 6500-6515 between the Member Districts, South Bay Area Schools Insurance Authority was established to provide for pooling of liability, property and crime coverage.

Property: JPA Retained Limit - \$490,000 over member deductible of \$10,000
PEPIP - \$500,000,000 excess of \$500,000

Liability: JPA Retained Limit - \$240,000 over member deductible of \$10,000
PRISM - \$4,750,000 excess of \$250,000
SELF - \$50,000,000 excess of \$5,000,000

Crime: Member deductible of \$5,000
National Union Fire Insurance Co. of Pittsburgh, PA
\$3,000,000 excess of \$5,000

All limits are on a per occurrence basis.

D. Reporting Entity

The Authority's reporting entity includes all activities (operations of its officers and board of directors as they relate to the Authority) considered to be part of (controlled by or dependent on) the Authority. This includes financial activity relating to all of the membership years of the Authority. In determining its reporting entity, the Authority considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in the financial statements principally because the Authority does not exercise oversight responsibility over any members.

E. Basis of Accounting

These statements are prepared on the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been received, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements. Since the Authority discounts claims liabilities, the pool considers anticipated investment income in determining if a premium deficiency exists.

F. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents include all checking and savings accounts and cash in the county treasury.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

G. Receivables

Deductibles are paid by the Authority on behalf of each member when claims are paid. Members are charged for these deductibles on an annual basis. All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2022 and 2021, the total member receivable was considered collectible.

H. Investment in Pooled Funds

The Authority records cash with the Santa Clara County Treasurer at fair value. The effect of recording investments at fair market value is reflected as a net increase (decrease) in the fair value of investments on the Statements of Revenues, Expenses and Changes in Net Position.

I. Unpaid Claim Liabilities (Claims Payable, Claims Incurred But Not Reported)

Claims liabilities are established based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) 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 and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

J. Operating and Nonoperating Revenues

Operating revenues result from exchange transactions associated with the principal activity of the organization. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating revenues is comprised of premium contributions, administration income and related fees and assessments which are an integral part of the operations. All other revenues, including investment income, are classified as nonoperating.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

K. Contribution Income

Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. The activities of the Authority consist solely of risk management programs and claims management activities related to the coverages described above.

Member contributions are based upon each member's average daily attendance, exposure, total insured value (TIV), and claims experience. The allocation shall be actuarially sound. Member contributions are recognized as revenues in the period for which insurance protection is provided. Each year, the Authority evaluates the pool's financial risk position, defined as contributions less expenses, claims reserves, and IBNRs. If the JPA's Board of Directors determines that the insurance funds, including anticipated investment income, for a program are insufficient to pay losses, the JPA may impose a supplemental assessment on all participating members. Supplemental assessments are recognized as income in the period assessed.

L. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

M. Income Taxes

The Authority's income is exempt from federal income taxes under Internal Revenue Service Section 115, which excludes income derived from the exercise of any essential governmental function and accruing to a state political subdivision.

2. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash with County Treasury	\$ 4,055,736	\$ 4,023,156
Cash with Carl Warren	2	84,450
Cash with Bank of America	4,528,100	2,829,305
Cash with Wells Fargo Bank	-	3,164
Total Cash and Cash Equivalents	<u>\$ 8,583,838</u>	<u>\$ 6,940,075</u>

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

2. CASH AND CASH EQUIVALENTS (CONTINUED)

A. Investment in County Treasury

The Authority is considered to be an involuntary participant in an external investment pool as the Authority is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The Authority's investment in the pool is reported in the accounting financial statements at amortized cost which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

B. Cash with Carl Warren

Carl Warren holds an amount in trust for SBASIA. This amount is used to pay claims for one month then is reimbursed by SBASIA.

C. Cash in Bank

Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The excess over the insured amount is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

3. UNPAID CLAIM AND CLAIM ADJUSTMENT EXPENSES

The Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in liabilities for the Authority during the fiscal years ended June 30:

	2022	2021
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 6,357,405	\$ 5,096,301
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,563,000	1,567,000
Changes in provision for insured events of prior fiscal years	(145,522)	689,202
Total incurred claims and claim adjustment expenses	1,417,478	2,256,202
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(10,591)	41,723
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	1,243,345	953,375
Total payments	1,232,754	995,098
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 6,542,129	\$ 6,357,405
<u>Components</u>		
Reserve for Open Claims	\$ 2,092,542	\$ 2,172,318
Claims Incurred But Not Reported (IBNR)	3,854,587	3,607,087
ULAE	595,000	578,000
Total Claim Liabilities	\$ 6,542,129	\$ 6,357,405
Current Portion	\$ 900,000	\$ 900,000
Long Term Portion	5,642,129	5,457,405
Total Claim Liabilities	\$ 6,542,129	\$ 6,357,405

At June 30, 2022 and 2021, unpaid claims and claim adjustment expenses were presented at \$6,542,129 and \$6,357,405. SBASIA does not discount claims liability.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

4. JOINT VENTURE

The South Bay Area Schools Insurance Authority participates in a joint venture under a Joint Powers Agreement (JPA) with Public Risk Innovation, Solutions, and Management (PRISM) (formerly CSAC). The relationship is such that PRISM is not a component unit of SBASIA for financial reporting purposes. The audited financial statements for PRISM can be obtained from their website: prismrisk.gov.

The most recent available information for PRISM obtained from the financial statements is as follows:

A. <u>Entity</u>	PRISM
B. <u>Purpose</u>	To provide excess liability insurance coverage
C. <u>Participants</u>	Statewide entities
D. <u>Governing Board</u>	Consists of elected representatives of members by region
E. <u>Condensed Financial Information</u>	June 30, 2021*
Total Assets	\$ 1,006,132,845
Deferred Outflows Of Resources	2,167,314
Total Liabilities	820,969,455
Deferred Inflows Of Resources	976,070
Net Position (Deficit)	186,354,634
Total Liabilities and Net Position	\$ 1,008,300,159
Total Revenues	\$ 1,291,008,268
Total Expenses	(1,278,916,616)
Net Income (Loss)	\$ 12,091,652
 <u>Member Agency's Share of Net Assets</u>	 **

* Most recent available

** Has not been calculated.

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

5. SUBSEQUENT EVENTS

The Authority's management evaluated its June 30, 2022 financial statements for subsequent events through November 21, 2022 the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

**CLAIMS DEVELOPMENT INFORMATION
PROPERTY/ LIABILITY**

JUNE 30, 2022

	Fiscal and Policy Year Ended June 30,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1. Premiums and Investment Revenue										
Earned	\$ 2,996,714	\$ 3,152,204	\$ 3,466,746	\$ 3,393,046	\$ 3,508,638	\$ 3,887,880	\$ 4,232,138	\$ 5,240,861	\$ 6,585,657	\$ 8,411,947
Ceded	1,902,643	2,032,244	2,413,291	2,273,316	2,251,922	2,391,507	2,624,547	3,158,317	4,298,097	5,463,998
Net earned	1,094,071	1,119,960	1,053,455	1,119,730	1,256,716	1,496,373	1,607,591	2,082,544	2,287,560	2,947,949
2. Unallocated expenses	296,575	358,976	245,973	348,244	282,239	499,852	344,568	482,002	478,569	468,381
3. Estimated incurred claims and expense, end of policy year										
Incurred	898,000	911,000	944,000	1,009,000	856,165	1,572,000	1,244,000	1,478,000	1,567,000	1,563,000
Ceded										
Net Incurred	898,000	911,000	944,000	1,009,000	856,165	1,572,000	1,244,000	1,478,000	1,567,000	1,563,000
4. Paid (cumulative) as of:										
End of policy year	78,159	51,204	13,756	(114,784)	7,273	220,510	-	3,089	41,723	(10,591)
One year later	314,967	96,585	192,916	315,154	13,185	339,961	76,696	6,891	140,917	
Two years later	477,002	214,871	639,265	991,331	101,421	869,169	345,461	210,905		
Three years later	677,924	645,576	776,758	1,131,147	155,099	1,346,961	499,011			
Four years later	923,555	653,544	714,132	1,582,362	247,625	1,603,909				
Five years later	936,196	570,512	718,248	1,645,169	350,713					
Six years later	822,546	520,512	788,988	1,692,445						
Seven Years Later	819,064	520,512	870,646							
Eight Years Later	819,065	520,512								
Nine Years Later	819,064									
5. Reestimated ceded claims and expenses:	-	102	-	73,413	3,852,760	707,595	-	300,000	-	-
6. Reestimated net incurred claims and expenses:										
End of policy year	898,000	911,000	944,000	1,009,000	856,165	1,572,000	1,244,000	1,478,000	1,567,000	1,563,000
One year later	931,000	911,000	1,127,000	2,226,302	916,000	1,572,000	1,384,000	1,478,000	1,331,000	
Two years later	931,000	592,071	1,101,404	2,309,000	916,000	1,702,000	1,384,000	1,176,000		
Three years later	933,982	752,576	1,385,557	2,309,000	660,175	2,123,525	1,139,891			
Four years later	1,023,555	654,007	916,167	1,926,000	660,175	2,136,188				
Five years later	969,852	570,512	879,167	1,926,000	560,175					
Six years later	822,546	520,512	986,769	1,946,000						
Seven years later	819,064	520,512	1,106,995							
Eight Years Later	819,064	520,512								
Nine Years Later	819,064									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (78,936)	\$ (390,488)	\$ 162,995	\$ 937,000	\$ (295,990)	\$ 564,188	\$ (104,109)	\$ (302,000)	\$ (236,000)	\$ -

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

**NOTES TO SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION**

JUNE 30, 2022

The table illustrates the Authority's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of the year.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's a) gross earned contributions revenue and investment revenue, b) the amount of contributions revenue ceded to reinsurers, and c) the amount of net earned contributions revenue and investment revenue.
2. This line shows the total of each policy year's a) gross incurred claims and allocated claim adjustment expense (both paid and accrued); b) the loss assumed by excess insurers or reinsurers, and c) the net amount of incurred claims and allocated claim adjustment expenses as originally reported at the end of the year.
3. This line shows the Authority's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the year.
4. This section shows the cumulative amounts paid as of the end of the year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each insured year.
6. This annual reestimation results from new information received on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated incurred claim amount to the amount originally established (line 3) and shows whether this later estimate of claims cost is greater or less than originally estimated.

SUPPLEMENTARY INFORMATION

SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

GRAPHICAL SUMMARY OF CLAIMS

JUNE 30, 2022

