

**SCHOOLS EXCESS LIABILITY FUND**

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

**YEARS ENDED JUNE 30, 2017 AND 2016**

# SCHOOLS EXCESS LIABILITY FUND

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Schools Excess Liability Fund (SELF) as of June 30, 2017 and 2016, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's *Minimum Audit Requirements for California Special Districts*, 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 audit 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 respective financial position of SELF as of June 30, 2017 and 2016, and the respective changes in its financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

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. 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 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.

### *Additional Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SELF's basic financial statements. The additional information section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 additional information section 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 October 23, 2017, on our consideration of SELF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is 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 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 Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 23, 2017**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017**

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

SELF is a public agency which exists to serve our members and the students they represent. For financial reporting purposes, SELF operates as a special-purpose government engaged in business type activities. SELF is governed by an elected Board of Directors and alternates from six regions across California, two community college representatives, 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***

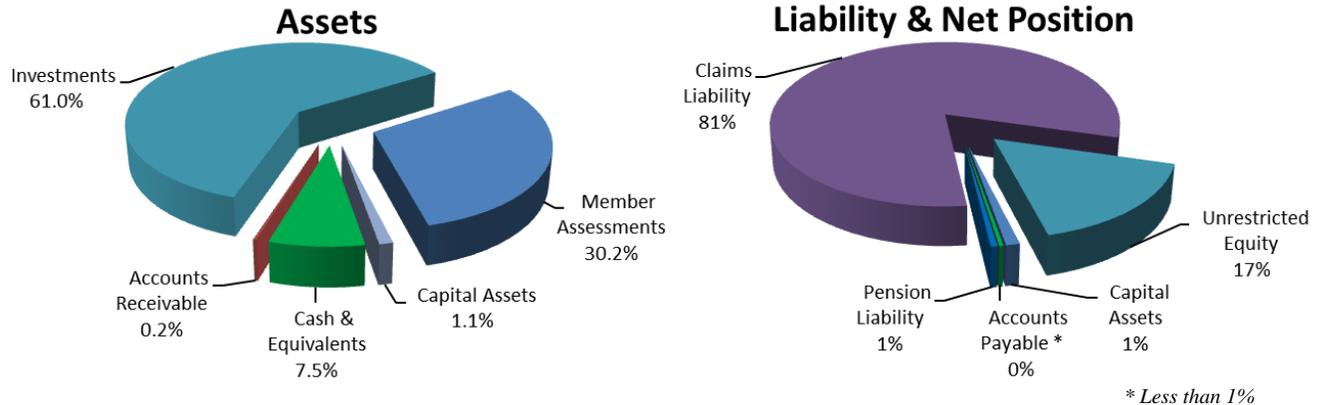
SELF is a member-owned, statewide partnership of public educational agencies providing quality pooled programs for excess coverage that benefit our students.

### ***Overview of the Financial Statements***

This financial 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, 2017 and 2016. 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, 2017 and 2016.

## Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017



### **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 account for 61% of all assets; 99% are long-term with maturities between one and five years. Total investments have decreased 7%, as SELF has used these resources to fund claim payments. The other major asset is Member Assessments, which represents the remaining six years of a ten year fixed assessment plan to fund Excess Workers' Compensation claims from July 1, 1989 through June 30, 2010, with the current portion due in 2017/2018. 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.

The majority of assets are held to fund the claims liabilities, which account for 99% of all liabilities. Total claims liabilities has decreased 11% from June 30, 2016, contributing to a 4% increase in the total Net Position. As of June 30, 2017, 9% of all liabilities were current, or expected to be due within one year, while 91% were non-current; this is expected due to the extended 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. Effective for the year ended June 30, 2015, SELF recorded the net pension obligations in compliance with GASB 68, based on the CalPERS GASB 68 Accounting Valuation Report, which has been updated.

### Schools Excess Liability Fund Statement of Net Position June 30, 2017, June 30, 2016, and June 30, 2015

	<u>XL</u>	<u>XWC</u>	<u>Building</u>	<u>2016/2017</u>	<u>2015/2016</u>	<u>2014/2015</u>
<b>ASSETS</b>						
Current Assets	\$ 5,821	\$ 10,223	\$ 344	\$ 16,388	\$ 18,555	\$ 15,819
Non-current Assets	24,725	83,733		108,458	118,767	137,318
Capital Assets	21	9	1,350	1,381	1,499	1,590
<b>Total Assets</b>	<b>30,588</b>	<b>93,975</b>	<b>1,694</b>	<b>126,227</b>	<b>138,820</b>	<b>154,727</b>
<b>Deferred Outflows of Resources</b>	<b>252</b>	<b>101</b>	<b>0</b>	<b>353</b>	<b>266</b>	<b>99</b>
<b>LIABILITIES</b>						
Current Liabilities	4,291	4,894	4	9,189	19,716	15,124
Long-term Liabilities	23,484	71,430	0	94,915	97,591	107,347
<b>Total Liabilities</b>	<b>27,775</b>	<b>76,324</b>	<b>4</b>	<b>104,103</b>	<b>117,307</b>	<b>122,471</b>
<b>Deferred Inflows of Resources</b>	<b>34</b>	<b>14</b>	<b>0</b>	<b>48</b>	<b>245</b>	<b>166</b>
<b>NET POSITION</b>						
Invested in Capital Assets	21	9	1,350	1,381	1,499	1,590
Undesignated	2,989	17,719	340	21,048	20,036	30,600
<b>Total Net Position</b>	<b>\$ 3,010</b>	<b>\$ 17,728</b>	<b>\$ 1,690</b>	<b>\$ 22,429</b>	<b>\$ 21,535</b>	<b>\$ 32,190</b>

\*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 2016/2017

**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, 2016 through June 30, 2017 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 revenue includes the contributions by SELF's members for financing pool-funding requirements and Member Assessments. Excess Liability contributions increased 31% from the prior year. There have been no additional Member Assessments or adjustments since 2014/2015. 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 84% of all expenditures, these were 50% less than the prior year; an 80% decrease in Net Claims Expense and 11% increase in Excess / Reinsurance Expense. While member contributions and reinsurance expense are primarily for the fiscal year ending June 30, 2017, the claims and claims adjustment expenses were predominantly for payments to members on claims from prior fiscal years and changes in the estimated historic claims liability.

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 16% of total expense and decreased 7% from the prior fiscal year. SELF has made a concerted effort to reduce costs through a competitive bid process and renegotiation of essential services.

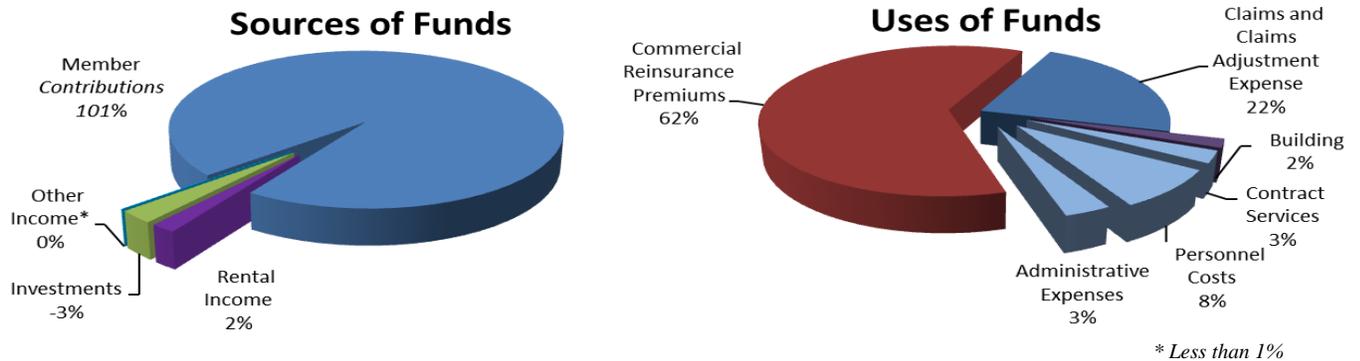
Non-operating revenues and expenses are income and/or costs not directly related to the operation of the programs, including rental and investment income or loss. They are reported in a separate section to comply with GASB 34, allowing financial statement users to see the true operating income or loss 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, had a net loss due to unrecognized decreases in market values.

**Schools Excess Liability Fund  
Statement of Revenues, Expenses & Change in Net Position  
For the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015**

	<u>XL</u>	<u>XWC</u>	<u>Building</u>	<u>2016/2017</u>	<u>2015/2016</u>	<u>2014/2015</u>
<b>Operating Revenue:</b>						
Premiums / Contributions	\$ 14,352	\$ 0	\$ 0	\$ 14,352	\$ 10,982	\$ 10,294
Member Assessments		0	0		0	(10)
<b>Total Operating Revenues</b>	<b>14,352</b>	<b>0</b>	<b>0</b>	<b>14,352</b>	<b>10,982</b>	<b>10,284</b>
<b>Program Expenses:</b>						
Provision for Claims & Claims Adj. Exp.	9,272	(6,286)	0	2,987	14,838	13,559
Commercial Reinsurance Premiums	8,221	0	0	8,221	7,401	7,061
<b>Total Program Expenses</b>	<b>17,493</b>	<b>(6,286)</b>	<b>0</b>	<b>11,207</b>	<b>22,239</b>	<b>20,620</b>
General & Administrative Expense	1,371	538	237	2,145	2,314	2,443
<b>Total Operating Expenses</b>	<b>18,864</b>	<b>(5,748)</b>	<b>237</b>	<b>13,353</b>	<b>24,554</b>	<b>23,064</b>
<b>Operating Income (Loss)</b>	<b>(4,512)</b>	<b>(5,748)</b>	<b>(237)</b>	<b>999</b>	<b>(13,572)</b>	<b>(12,780)</b>
<b>Non-Operating Income / Expense:</b>						
Rental Income	0	0	277	277	268	255
Interest Income	29	(424)	1	(394)	2,623	1,428
Transfer	0	0	0	0	0	0
Other Income	11	1	0	12	26	5
<b>Total Non-operating Rev. (Exp.)</b>	<b>40</b>	<b>(423)</b>	<b>278</b>	<b>(105)</b>	<b>2,917</b>	<b>1,688</b>
<b>Change in Net Position</b>	<b>\$ (4,472)</b>	<b>\$ 5,325</b>	<b>\$ 21</b>	<b>\$ 894</b>	<b>\$ (10,655)</b>	<b>\$ (11,092)</b>
<b>Net Position, Beginning Balance</b>	<b>\$ 7,483</b>	<b>\$ 12,403</b>	<b>\$ 1,649</b>	<b>\$ 21,535</b>	<b>\$ 32,190</b>	<b>\$ 43,890</b>
<b>Cumulative Effect of Change</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(608)</b>
<b>Net Position, Ending Balance</b>	<b>\$ 3,010</b>	<b>\$ 17,728</b>	<b>\$ 1,690</b>	<b>\$ 22,429</b>	<b>\$ 21,535</b>	<b>\$ 32,190</b>

\*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.

# Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017



### **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 2016/2017, SELF had 529 active members across the state of California.

In 2016/2017, SELF provided excess liability limit up to \$30 million, with optional excess liability available to \$55 million, through a combination of self-insurance, reinsurance, and excess. SELF members have retained limits of \$1 million or \$5 million. Program rates were increased in 2016/2017 to mitigate the troubling legal and legislative liability trends statewide.

As of June 30, 2017, the Excess Liability Program has \$28.8 million in claim funding, a 16% decrease from June 30, 2016. Actual claims paid in 2016/2017 were over \$10.5 million, while reserves decreased just \$5 million, and the incurred but not reported increased \$3.7 million. The program had a 59% confidence level after several years with unusually high claim frequency and severity which permeated the self-insured layer, after years of relatively stable loss development.

#### **Excess Workers' Compensation:**

July 1, 1989, SELF launched the Excess Workers' Compensation (XWC) Program, which closed after the June 30, 2010 fiscal year, and 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, 2017, the Excess Workers' Compensation Program has \$93.4 million in claim funding, a 7% decrease from June 30, 2016. SELF reimbursed members over \$5.7 million for claims in 2016/2017 and \$42 million since the program closed in 2010. In 2016/2017, the program realized a decrease in Net Claims Expense of \$6.3 million, with reductions of \$8.5 million in claims reserves and \$3.5 million in incurred but not reported (IBNR) claims liability and unallocated loss adjustment expense (ULAE). The program had an 85% confidence level from just under 80% at June 30, 2016 and less than 70% at June 30, 2015, due to active claims management and resolution.

Open claims were reduced by 22% from the prior year end and 57% over the last five years. Reductions include reserve savings due to 30 new compromise and releases, 54 claims closed due to inactivity over the last two years, 3 claimants passed away, and 2 claims were closed as they reached the SELF retention cap. This positive trend is a reflection of the efforts SELF has made, in concert with its members, to close open claims and salvage reserves within the XWC Program's layers and to assist members in settling claims prior to piercing these layers.

# Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017

**Non-Operating Revenue:**

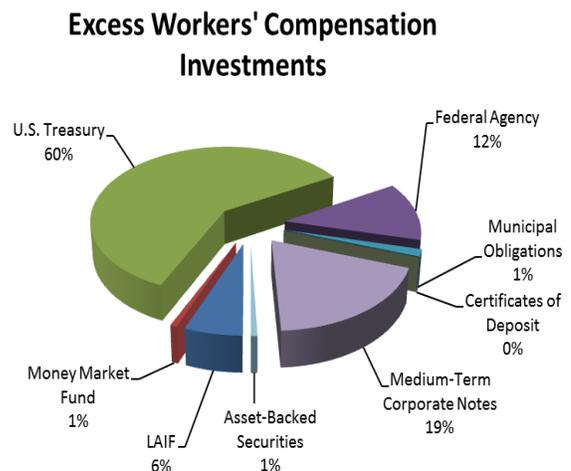
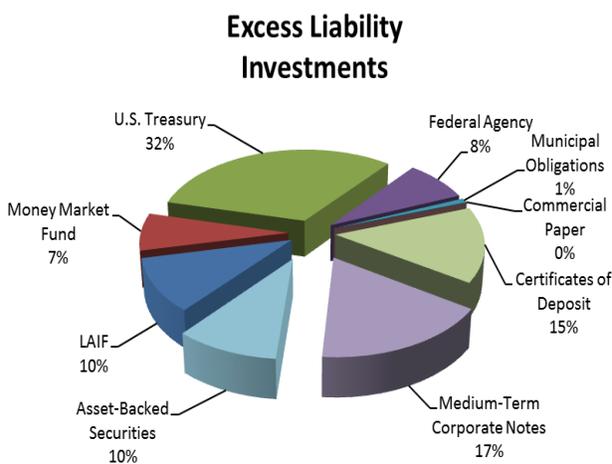


**Rental Income:**

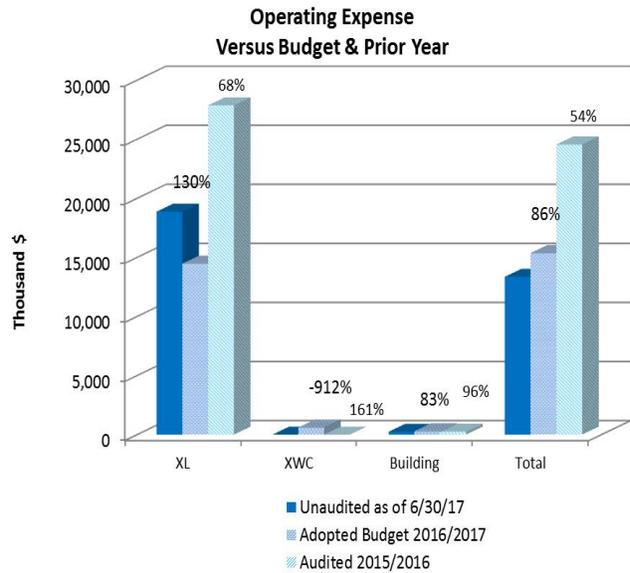
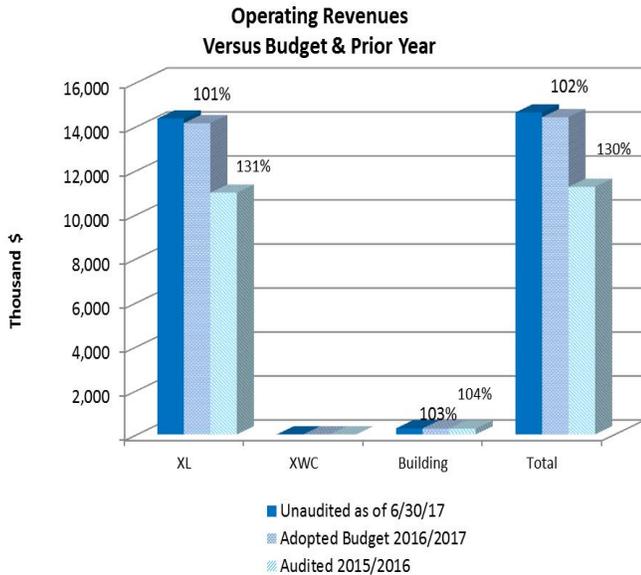
SELF owns and manages a building in downtown Sacramento, at 1531 I Street, Sacramento, California. The building was purchased in 1993 with retained equity and is considered an investment of SELF. Approximately 65% of the building is leased to long-term tenants, including one of our members, Alliance of Schools for Cooperative Insurance Programs. 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 this investment of our members. SELF also has a state of the art conference center, which is available for use at no charge to any of our members.

**Investments:**

SELF held \$86 million in investments, as of June 30, 2017. Approximately 11% was liquid in either bank accounts or the Local Agency Investment Fund, which is considered liquid. 89% of funds are held in separate investment portfolios for the Excess Liability and Excess Workers' Compensation Programs, to maximize yield. 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.



## Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017



### **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. Revenues were 1% over the adopted budget and increased 31% from prior year actuals. Total expenses were 13% less than the adopted budget and 46% less than the prior year. Total program expenses were 14% less than the adopted budget. Claims and claims adjustment expenses were 39% less, due to the reduction of Net Claims Expense in the Excess Workers' Compensation Program. Reinsurance expenses were just 1% greater than the adopted budget, and 11% greater than the prior fiscal year. General and Administrative expense was 9% less than the adopted budgeted amount and 7% less than the prior year, due to a concerted effort to reduce these expenses. Non-operating revenues, which had a net decrease in 2016/2017, were a negative 105% compared with the adopted budget and a negative 104% compared to the prior year.

### Budget vs. Actual For the Year Ended June 30, 2017

	Budget		Actual		Variance	
	Amount	Percent	Amount	Percent	Amount	Percent
Operating Revenues	\$ 14,141		\$ 14,352		\$ 211	1 %
Program Expenses	(12,996)		(11,207)		1,789	(14 %)
General & Administrative Expenses	(2,362)		(2,145)		217	(9 %)
<b>Total Operating Income (Loss)</b>	<b>(1,217)</b>		<b>999</b>		<b>2,217</b>	<b>(182 %)</b>
Non-operating Revenue (Expense)	1,972		(105)		(2,077)	(105 %)
<b>Change in Net Position</b>	<b>\$ 755</b>		<b>\$ 894</b>		<b>\$ 140</b>	<b>19 %</b>

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

### Schools Excess Liability Fund Adopted Budget For the Years Ended June 30, 2017, June 30, 2016, and June 30, 2015

	XL	XWC	Building	2016/2017	2015/2016	2014/2015
Operating Revenues	\$ 14,141	\$ 0	\$ 0	\$ 14,141	\$ 10,673	\$ 10,100
Program Expenses	(12,996)	0	0	(12,996)	(10,205)	11,634
General & Administrative Expense	(1,472)	(605)	(285)	(2,362)	(2,285)	2,267
Operating Income (Loss)	(327)	(605)	(285)	(1,217)	(1,817)	(3,801)
Total Non-operating Revenue. (Expense.)	629	1,072	271	1,972	2,296	1,683
<b>Change in Net Position</b>	<b>\$ 302</b>	<b>\$ 467</b>	<b>\$ (14)</b>	<b>\$ 755</b>	<b>\$ 479</b>	<b>\$ (2,634)</b>

## Schools Excess Liability Fund Management's Discussion and Analysis Fiscal Year 2016/2017

***Factors Bearing on the Future:***

The Schools Excess Liability Fund's fiscal year 2017/2018 Operating Budget includes \$15 million in Revenue, \$13 million in program expense, \$2.5 million in General and Administrative Expenses, and \$1.7 million in Non-Operating Revenue, for an increase in Net Position of \$1.7 million. It was reviewed by the Finance Committee on June 8, 2017 and approved by the Board of Directors on June 23, 2017. SELF is continuing to build equity by incrementally increasing rates in line with our Strategic Plan objective to deliver strong financial performance to the organization by building financial stability.

**Schools Excess Liability Fund  
Adopted Budget  
For the Years Ended June 30, 2018, June 30, 2017, and June 30, 2016**

	<u>XL</u>	<u>XWC</u>	<u>Building</u>	<u>2017/2018</u>	<u>2016/2017</u>	<u>2015/2016</u>
Operating Revenues	\$ 15,149	\$ 0	\$ 0	\$ 15,149	\$ 14,141	\$ 10,673
Program Expenses	(13,073)	0	0	(13,073)	(12,996)	(10,205)
General & Administrative Expense	(1,603)	(615)	(300)	(2,518)	(2,362)	(2,285)
Operating Income (Loss)	<b>473</b>	<b>(615)</b>	<b>(300)</b>	<b>(442)</b>	<b>(1,217)</b>	<b>(1,817)</b>
Total Non-operating Revenue. (Expense.)	501	924	284	1,709	1,972	2,296
<b>Change in Net Position</b>	<b><u>\$ 973</u></b>	<b><u>\$ 309</u></b>	<b><u>\$ (15)</u></b>	<b><u>\$ 1,267</u></b>	<b><u>\$ 755</u></b>	<b><u>\$ 479</u></b>

The current legal environment in California remains an obstacle for schools. Inflated settlements and large jury verdicts continue to place pressure on the bottom line of JPAs. SELF is continuing efforts in the area of tort reform with a coalition of other JPAs and strategic partners, to try to mitigate these current trends to provide relief for its members.



## **FINANCIAL STATEMENTS**

# SCHOOLS EXCESS LIABILITY FUND

## STATEMENTS OF NET POSITION JUNE 30, 2017 AND 2016

<b>ASSETS</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Current assets:		
Cash and cash equivalents	\$ 9,462,791	\$ 6,597,367
Investments	261,102	1,771,987
Accounts receivable:		
Excess insurance recoverable		3,500,000
Interest and other	269,372	269,913
Member assessments receivable	6,355,281	6,355,281
Prepaid expenses	39,310	60,082
Total current assets	<u>16,387,856</u>	<u>18,554,630</u>
Noncurrent assets:		
Investments	76,690,524	80,644,086
Member assessments receivable	31,767,402	38,122,683
Capital assets, net	<u>1,380,950</u>	<u>1,498,867</u>
Total non-current assets	<u>109,838,876</u>	<u>120,265,636</u>
Total assets	<u>126,226,732</u>	<u>138,820,266</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred outflows of resources related to pensions	<u>353,399</u>	<u>266,414</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	410,683	388,185
Unpaid claims and claim adjustment expenses	<u>8,778,000</u>	<u>19,328,000</u>
Total current liabilities	<u>9,188,683</u>	<u>19,716,185</u>
Noncurrent liabilities:		
Other liabilities	133,334	166,667
Net pension liability	676,383	530,238
Unpaid claims and claim adjustment expenses	<u>94,105,006</u>	<u>96,893,836</u>
Total noncurrent liabilities	<u>94,914,723</u>	<u>97,590,741</u>
Total liabilities	<u>104,103,406</u>	<u>117,306,926</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred inflows of resources related to pensions	<u>47,698</u>	<u>245,133</u>
<b>NET POSITION:</b>		
Net investment in capital assets	1,380,950	1,498,867
Unrestricted	<u>21,048,077</u>	<u>20,035,754</u>
Total net position	<u>\$ 22,429,027</u>	<u>\$ 21,534,621</u>

See accompanying notes to financial statements.

# SCHOOLS EXCESS LIABILITY FUND

## STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUE:</b>		
Member contributions	\$ 14,352,055	\$ 10,982,004
<b>OPERATING EXPENSES:</b>		
Provision for unpaid claims and claim adjustment expenses	2,986,600	14,837,912
Commercial reinsurance premiums	8,220,764	7,401,411
Total direct claims expenses	<u>11,207,364</u>	<u>22,239,323</u>
General and administrative expenses:		
Contract services	344,926	471,907
Personnel costs	1,099,882	1,100,843
Administrative expenses	452,833	484,102
Building	116,961	129,104
Depreciation	130,840	128,327
Total general and administrative	<u>2,145,442</u>	<u>2,314,283</u>
Total operating expenses	<u>13,352,806</u>	<u>24,553,606</u>
Operating income (loss)	<u>999,249</u>	<u>(13,571,602)</u>
<b>NON-OPERATING REVENUES (EXPENSE):</b>		
Rental income	276,966	267,696
Investment income (loss)	(393,967)	2,622,611
Other income	12,158	26,287
Total non-operating revenues (expense)	<u>(104,843)</u>	<u>2,916,594</u>
Change in net position	894,406	(10,655,008)
Net position, beginning of year	<u>21,534,621</u>	<u>32,189,629</u>
Net position, end of year	<u>\$ 22,429,027</u>	<u>\$ 21,534,621</u>

# SCHOOLS EXCESS LIABILITY FUND

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members and others	\$ 20,709,832	\$ 17,335,095
Cash received from reinsurance	3,500,000	
Cash paid for claims and settlements	(16,325,430)	(20,112,172)
Cash paid for claims in reinsurance layer		(3,500,000)
Cash paid for reinsurance	(8,220,764)	(7,401,411)
Cash paid to suppliers for goods and services	(878,168)	(1,014,339)
Cash paid for employees services	<u>(1,266,305)</u>	<u>(1,139,932)</u>
Net cash used in operating activities	<u>(2,480,835)</u>	<u>(15,832,759)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	<u>(13,885)</u>	<u>(62,378)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities purchased	(50,289,690)	(68,245,883)
Securities sold and matured	53,967,898	82,458,316
Rental income received	289,124	293,983
Interest received	<u>1,392,812</u>	<u>1,579,554</u>
Net cash provided by investing activities	<u>5,360,144</u>	<u>16,085,970</u>
Net increase in cash and cash equivalents	2,865,424	190,833
Cash and cash equivalents, beginning of year	<u>6,597,367</u>	<u>6,406,534</u>
Cash and cash equivalents, end of year	<u>\$ 9,462,791</u>	<u>\$ 6,597,367</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating income (loss)	\$ 999,249	\$ (13,571,602)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	130,840	128,328
Loss on disposal of capital assets	963	24,848
(Increase) decrease in:		
Member and other receivables		307
Reinsurance receivable	3,500,000	(3,500,000)
Assessment receivable	6,355,281	6,355,281
Prepaid expenses	20,771	(17,923)
Deferred outflows of resources	(86,985)	(166,977)
Increase (decrease) in:		
Accounts payable	(10,835)	122,050
Net pension liability	146,145	(11,791)
Deferred inflows of resources	(197,435)	78,980
Unpaid claims and claim adjustment expenses	<u>(13,338,829)</u>	<u>(5,274,260)</u>
Net cash provided by (used in) operating activities	<u>\$ (2,480,835)</u>	<u>\$ (15,832,759)</u>

See accompanying notes to financial statements.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 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, and members must remain in the program for three fiscal years before they are eligible to withdraw.

#### 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, 2017 and 2016.

SELF's Excess Liability Program membership currently consist of approximately 529 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. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, 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, 2017 AND 2016

### 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

Supplemental to excess coverage above, SELF offered Optional Excess Liability (OEL) coverage:

<u>Policy Year</u>	<u>OEL - Option 1</u>	<u>OEL - Option 2</u>	<u>OEL - Option 3</u>	<u>OEL - Option 4</u>
1990	\$6.5 M x \$12.5 M			
1991-2000	\$5 M x \$15 M	\$10 M x \$15 M		
2001	\$5 M x \$15 M	\$10 M x \$15 M	\$15 M x \$25 M	\$10 M x \$40 M
2002	\$5 M x \$15 M	\$10 M x \$15 M	\$35 M x \$15 M	
2003-2006	\$5 M x \$15 M	\$10 M x \$15 M	\$30 M x \$15 M	
2007	\$5 M x \$20 M	\$20 M x \$25 M		
2008	\$5 M x \$20 M	\$20 M x \$25 M	\$5 M x \$45 M	
2009	\$20 M x \$25 M	\$25 M x \$25 M	\$5 M x \$45 M	
2010-2014	\$20 M x \$25 M	\$25 M x \$25 M		
2015-2017	\$25 M x \$30 M			

### 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.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 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 noncancellable 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.

SELF does not believe there to be any impairment of its capital assets at June 30, 2017 and 2016.

### 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 estimates and cash flow projections on current claims.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 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 balance sheet 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.

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 is 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.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

### 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.

### Reclassifications

The prior year statement of cash flow was reclassified to present cash paid for claims in the reinsurance layer.

## 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents:		
Cash on hand and in bank	\$ 37,418	\$ 3,363,024
Money Market	2,605,300	523,986
Local Agency Investment Fund	6,820,073	2,710,357
Total cash and cash equivalents	<u>9,462,791</u>	<u>6,597,367</u>
Investments:		
Corporate Notes	15,761,517	10,332,634
U.S Agency Bonds	9,336,844	26,090,535
U.S. Treasury Notes	43,008,032	34,774,852
Certificates of deposit	4,455,787	6,019,371
Municipal bonds	1,109,631	1,698,365
Asset-backed securities / collateralized mortgage obligations	3,279,815	3,500,316
Total investments	<u>76,951,626</u>	<u>82,416,073</u>
Total cash, cash equivalents, and investments	<u>\$ 86,414,417</u>	<u>\$ 89,013,440</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](http://www.treasurer.ca.gov).

### 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.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 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 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, 2017 and 2016, all investments, excluding LAIF, were issued, registered and held by SELF's agent in the 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, \$2,691,696 were not covered by FDIC insurance, but are fully collateralized.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

The California Government Code and SELF's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an 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, 2017, the average effective maturity of the investments contained in SELF's pool is approximately 3.65 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, 2017:

<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>
Corporate Notes (Level 2)	\$ 15,761,517			\$ 15,761,517
U.S Agency Bonds (Level 1)	9,336,844		\$ 124,298	9,212,546
U.S Treasury Notes (Level 1)	43,008,032			43,008,032
Certificates of deposit (Level 2)	4,455,787		4,455,787	
Municipal bonds (Level 2)	1,109,631	\$ 261,102		848,529
Asset-backed securities (Level 2)	<u>3,279,815</u>	<u>                    </u>	<u>                    </u>	<u>3,279,815</u>
Total	<u>\$ 76,951,626</u>	<u>\$ 261,102</u>	<u>\$ 4,580,085</u>	<u>\$ 72,110,439</u>

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

The following table that shows the distribution of SELF's investments by maturity as of June 30, 2016:

<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>
Corporate Notes (Level 2)	\$ 10,332,634		\$ 1,638,381	\$ 8,694,253
U.S Agency Bonds (Level 1)	26,090,535		221,052	25,869,483
U.S Treasury Notes (Level 1)	34,774,852			34,774,852
Certificates of deposit (Level 2)	6,019,371	\$ 1,252,363	4,767,008	
Municipal bonds (Level 2)	1,698,365	519,624	265,178	913,563
Asset-backed securities (Level 2)	<u>3,500,315</u>			<u>3,500,315</u>
Total	<u>\$ 82,416,072</u>	<u>\$ 1,771,987</u>	<u>\$ 6,891,619</u>	<u>\$ 73,752,466</u>

### 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. Presented below is the actual rating as of year-end for each investment type as of June 30, 2017:

<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	\$ 15,761,517	\$ 1,748,549	\$ 12,169,783	\$ 1,843,185	
U.S Agency Bonds	9,336,844	9,336,844			
U.S Treasury Notes	43,008,032	43,008,032			
Certificates of deposit	4,455,787	598,368	577,409		\$ 3,280,010
Municipal bonds	1,109,631	261,102			848,529
Asset-backed securities	3,279,815	3,279,815			
Money market	2,605,300				2,605,300
LAIF	<u>6,820,073</u>				<u>6,820,073</u>
Total	<u>\$ 86,376,999</u>	<u>\$ 58,232,710</u>	<u>\$ 12,747,192</u>	<u>\$ 1,843,185</u>	<u>\$ 13,553,912</u>

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Presented below is the actual rating as of year-end for each investment type as of June 30, 2016:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Rating as of Year End</b>		
		<b>AAA to AA</b>	<b>AA- to A-</b>	<b>Not Rated</b>
Corporate Notes	\$ 10,332,634	\$ 1,944,162	\$ 8,388,472	
U.S Agency Bonds	26,090,535	26,090,535		
U.S Treasury Notes	34,774,852	34,774,852		
Certificates of deposit	6,019,371		6,019,371	
Municipal bonds	1,698,365	1,698,365		
Asset-backed securities	3,500,316	1,540,294		\$ 1,960,022
Money market	523,986			523,986
LAIF	2,710,357			2,710,357
Total	\$ 85,650,416	\$ 66,048,208	\$ 14,407,843	\$ 5,194,365

### Concentration of Investment Credit Risk

At June 30, 2017 and 2016, SELF's holdings in Federal National Mortgage Association represented 12% and 25% of the portfolio's total invested assets, respectively.

### **3. MEMBER ASSESSMENT 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, 2017 and 2016 SELF made no allowance for uncollected accounts as management estimated the accounts to be materially collectable. The assessment receivables at June 30, 2017 and 2016 are as follows:

	<b><u>2017</u></b>	<b><u>2016</u></b>
Member assessment receivable	\$ 38,122,683	\$ 44,477,964
Less current portion of member assessment receivable	(6,355,281)	(6,355,281)
Member assessment receivable, non-current	\$ 31,767,402	\$ 38,122,683

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

### 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017 was as follows:

	<b>Balance at July 1, 2016</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at June 30, 2017</b>
Investment in building	\$ 3,182,181		\$ (2,151)	\$ 3,180,030
Equipment	<u>359,164</u>	<u>\$ 13,885</u>	<u></u>	<u>373,049</u>
Total	3,541,345	13,885	(2,151)	3,553,079
Less accumulated depreciation	<u>(2,042,478)</u>	<u>(130,839)</u>	<u>1,188</u>	<u>(2,172,129)</u>
Capital assets - net	<u>\$ 1,498,867</u>	<u>\$ (116,954)</u>	<u>\$ (963)</u>	<u>\$ 1,380,950</u>

Capital assets activity for the year ended June 30, 2016 was as follows:

	<b>Balance at July 1, 2015</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at June 30, 2016</b>
Investment in building	\$ 3,123,452	\$ 58,729		\$ 3,182,181
Equipment	<u>380,363</u>	<u>3,649</u>	<u>\$ (24,848)</u>	<u>359,164</u>
Total	3,503,815	62,378	(24,848)	3,541,345
Less accumulated depreciation	<u>(1,914,150)</u>	<u>(128,328)</u>	<u></u>	<u>(2,042,478)</u>
Capital assets - net	<u>\$ 1,589,665</u>	<u>\$ (65,950)</u>	<u>\$ (24,848)</u>	<u>\$ 1,498,867</u>

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

### 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>2017</u>	<u>2016</u>
Unpaid losses and loss adjustment expenses, beginning of fiscal year	\$ 116,221,836	\$ 121,496,096
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current year	5,434,067	4,744,654
Increase (decrease) in provision for insured events of prior years	<u>(2,447,467)</u>	<u>10,093,258</u>
Total incurred losses and loss adjustment expenses	<u>2,986,600</u>	<u>14,837,912</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	<u>16,325,430</u>	<u>20,112,172</u>
Total payments	<u>16,325,430</u>	<u>20,112,172</u>
Total unpaid losses and loss adjustment expenses, end of fiscal year	<u>\$ 102,883,006</u>	<u>\$ 116,221,836</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Reported claims	\$ 50,966,102	\$ 64,458,189
Claims incurred but not reported (IBNR)	44,408,799	42,731,339
Unallocated loss adjustment expenses (ULAE)	<u>7,508,105</u>	<u>9,032,308</u>
Total unpaid claims and claim adjustment expenses	102,883,006	116,221,836
Unpaid claims and claim adjustment expenses, current	<u>(8,778,000)</u>	<u>(19,328,000)</u>
Unpaid claims and claim adjustment expenses, noncurrent	<u>\$ 94,105,006</u>	<u>\$ 96,893,836</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 2.75% Excess Workers' Compensation Program for the years ended June 30, 2017 and 2016. The undiscounted liability at June 30, 2017 and 2016 was \$125,292,006 and \$140,931,667, respectively.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 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](http://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.

#### 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, 2016 (the measurement date) was 8.512% and 6.237% of annual pay for Classic and PEPRA employees, respectively, and an additional lump sum payment of \$41,582 toward the unfunded liability. Employer contributions rates may change if plan contracts are amended. SELF makes the contributions required of certain Authority employees on their behalf and for their account. For the year ended June 30, 2017, the employer contributions to the plan were \$116,083.

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

### 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, 2016 for the year ended June 30, 2017. The total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. As of June 30, 2017, SELF's proportionate share of the Plan's NPL was \$676,383.

The NPL of the Plan is measured as of June 30, 2015 for the year ended June 30, 2016. The total TPL used to calculate the NPL was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. As of June 30, 2016, SELF's proportionate share of the Plan's NPL was \$530,238.

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, 2016 was as follows:

	<b>Plan</b>
Proportion - June 30, 2016	0.019471%
Proportion - June 30, 2015	0.019327%
Change - increase (decrease)	0.000143%

For the years ended June 30, 2017 and 2016, SELF recognized pension expense of \$71,672 and \$63,871, respectively.

At June 30, 2017, SELF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 3,768	\$ (863)
Changes in assumptions		(35,649)
Net differences between projected and actual investment earnings of pension plan investments	185,539	
Change in proportions		(11,186)
Change in proportionate share of contributions	12,388	
Pension contributions subsequent to measurement date	151,704	
Total	\$ 353,399	\$ (47,698)

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

As of June 30, 2017, the \$151,704 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, 2018. As of June 30, 2017, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Year Ended</b> <b><u>June 30</u></b>	
2018	\$ 9,359
2019	12,902
2020	83,678
2021	48,057

At June 30, 2016, SELF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred</u></b> <b><u>Outflows of</u></b> <b><u>Resources</u></b>	<b><u>Deferred</u></b> <b><u>Inflows of</u></b> <b><u>Resources</u></b>
Differences between expected and actual experience	\$ 6,375	
Changes in assumptions		\$ (60,311)
Net differences between projected and actual investment earnings of pension plan investments	154,587	(184,821)
Pension contributions subsequent to measurement date	<u>105,452</u>	<u>          </u>
Total	<u>\$ 266,414</u>	<u>\$ (245,132)</u>

As of June 30, 2016, the \$105,452 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, 2017. As of June 30, 2016, other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized as pension expense as follows:

<b>Year Ended</b> <b><u>June 30</u></b>	
2017	\$ (42,223)
2018	(42,223)
2019	(38,371)
2020	38,647

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### Actuarial Assumptions

For the measurement period ended June 30, 2016 (the measurement date), the TPL was determined by rolling forward the June 30, 2015 TPL. The June 30, 2015 and June 30, 2016 TPL were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry-Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Mortality Rate Table <sup>(1)</sup>	Derived using CalPERS' Membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>(1)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

### Changes in Assumptions

There were no changes in assumptions during the measurement period ended June 30, 2016.

### Discount Rate

The discount rate used to measure the TPL was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at 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, 2017 AND 2016

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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 – 10<sup>(a)</sup></u>	<u>Real Return Years 11+<sup>(b)</sup></u>
Global Equity	51.00%	5.25%	5.71%
Global Debt Securities	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	<u>100.00%</u>		

<sup>(a)</sup> An expected inflation of 2.5% was used for this period.

<sup>(b)</sup> An expected inflation of 3.0% 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, 2016 measurement date, calculated using the discount rate of 7.65%, 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 (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	<u>Discount Rate – 1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1% (8.65%)</u>
SELF's Proportionate Share of Plan's NPL	\$ 1,053,787	\$ 676,383	\$ 364,477

The following presents SELF's Proportional Share of the NPL of the Plan as of the June 30, 2015 measurement date, calculated using the discount rate of 7.65%, 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 (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

	<u>Discount Rate – 1% (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>Discount Rate + 1% (8.65%)</u>
SELF's Proportionate Share of Plan's NPL	\$ 889,246	\$ 530,238	\$ 233,835

**REQUIRED SUPPLEMENTARY INFORMATION**

## SCHOOLS EXCESS LIABILITY FUND

### RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS LIABILITY PROGRAM FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 28,288,609	\$ 23,543,073
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year	5,434,067	4,744,654
Change in provision for covered events of prior years	<u>3,838,417</u>	<u>14,197,554</u>
Total incurred claims and claim adjustment expenses	<u>9,272,484</u>	<u>18,942,208</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>10,558,748</u>	<u>14,196,672</u>
Total payments	<u>10,558,748</u>	<u>14,196,672</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 27,002,345</u>	<u>\$ 28,288,609</u>
The components of the unpaid claims and claim adjustment expenses as of June 30, 2017 and 2016 were as follows:		
Reported claims	\$ 8,051,775	\$ 12,998,856
Claims incurred but not reported	18,007,539	14,319,587
Unallocated loss adjustment expenses	<u>943,031</u>	<u>970,166</u>
	<u>\$ 27,002,345</u>	<u>\$ 28,288,609</u>

## SCHOOLS EXCESS LIABILITY FUND

### RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT EXCESS WORKERS' COMPENSATION PROGRAM FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 87,933,227	\$ 97,953,023
Incurred claims and claim adjustment expenses:		
Provision for covered events of current year		
Change in provision for covered events of prior years	<u>(6,285,884)</u>	<u>(4,104,296)</u>
Total incurred claims and claim adjustment expenses	<u>(6,285,884)</u>	<u>(4,104,296)</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>5,766,682</u>	<u>5,915,500</u>
Total payments	<u>5,766,682</u>	<u>5,915,500</u>
Total unpaid claims and claim adjustment expenses, end of year	<u>\$ 75,880,661</u>	<u>\$ 87,933,227</u>

The components of the unpaid claims and claim adjustment expenses as of June 30, 2017 and 2016 were as follows:

Reported claims	\$ 42,914,327	\$ 51,459,333
Claims incurred but not reported	26,401,260	28,411,752
Unallocated loss adjustment expenses	<u>6,565,074</u>	<u>8,062,142</u>
	<u>\$ 75,880,661</u>	<u>\$ 87,933,227</u>

# SCHOOLS EXCESS LIABILITY FUND

## CLAIMS DEVELOPMENT INFORMATION EXCESS LIABILITY PROGRAM

(in thousands)  
JUNE 30, 2017

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
(1) Premiums Revenue:										
Earned	\$ 10,600	\$ 9,998	\$ 14,268	\$ 11,376	\$ 10,817	\$ 9,829	\$ 9,874	\$ 10,294	\$ 10,982	\$ 14,352
Ceded (by policy year)	(3,017)	(7,955)	(10,345)	(7,997)	(8,296)	(6,610)	(6,602)	(7,061)	(7,401)	(8,221)
Cumulative interest earned (by policy year)	<u>1,878</u>	<u>155</u>	<u>293</u>	<u>90</u>	<u>57</u>	<u>57</u>	<u>31</u>	<u>566</u>	<u>820</u>	<u>29</u>
Net earned contribution and investment income	<u>9,461</u>	<u>2,198</u>	<u>4,216</u>	<u>3,469</u>	<u>2,578</u>	<u>3,276</u>	<u>3,303</u>	<u>3,799</u>	<u>4,401</u>	<u>6,160</u>
(2) Unallocated Expenses	\$ 1,320	\$ 1,396	\$ 1,777	\$ 1,406	\$ 1,369	\$ 1,265	\$ 1,473	\$ 1,504	\$ 1,524	\$ 1,371
(3) Estimated incurred claims and expenses, end of policy year:										
Incurred	\$ 3,454	\$ -	\$ 4,755	\$ 3,732	\$ 3,652	\$ 5,697	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Incurred	<u>3,454</u>	<u>-</u>	<u>4,755</u>	<u>3,732</u>	<u>3,652</u>	<u>5,697</u>	<u>2,740</u>	<u>2,680</u>	<u>5,084</u>	<u>5,844</u>
(4) Paid (Cumulative) as of:										
End of Policy Year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
One Year Later	-	-	-	-	-	-	-	5,000	-	-
Two Years Later	-	-	-	4,005	-	2,761	580	8,500	-	-
Three Years Later	967	-	-	4,011	-	2,760	844	-	-	-
Four Years Later	2,319	-	-	4,011	2,600	2,763	-	-	-	-
Five Years Later	2,365	-	-	9,022	4,604	-	-	-	-	-
Six Years Later	2,365	-	-	9,022	-	-	-	-	-	-
Seven Years Later	2,365	-	-	-	-	-	-	-	-	-
Eight Years Later	4,156	-	-	-	-	-	-	-	-	-
Nine Years Later	4,156	-	-	-	-	-	-	-	-	-
(5) Re-estimated Ceded Losses and Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
(6) Re-estimated incurred claims and expenses:										
End of Policy Year	\$ 3,454	\$ -	\$ 4,755	\$ 3,732	\$ 3,652	\$ 5,697	\$ 2,740	\$ 2,680	\$ 5,084	\$ 5,844
One Year Later	7,727	-	3,048	3,043	2,210	4,826	3,645	8,475	4,653	-
Two Years Later	2,604	-	1,746	5,142	1,244	3,706	9,266	16,686	-	-
Three Years Later	7,524	-	721	4,778	5,344	4,173	6,354	-	-	-
Four Years Later	4,354	-	522	9,362	5,942	4,088	-	-	-	-
Five Years Later	2,528	-	239	9,611	5,468	-	-	-	-	-
Six Years Later	2,501	-	534	9,589	-	-	-	-	-	-
Seven Years Later	2,477	-	494	-	-	-	-	-	-	-
Eight Years Later	4,403	-	-	-	-	-	-	-	-	-
Nine Years Later	4,369	-	-	-	-	-	-	-	-	-
(7) Increase (Decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ 915</u>	<u>\$ -</u>	<u>\$ (4,261)</u>	<u>\$ 5,857</u>	<u>\$ 1,816</u>	<u>\$ (1,609)</u>	<u>\$ 3,614</u>	<u>\$ 14,006</u>	<u>\$ (431)</u>	<u>\$ -</u>
(8) Unpaid claims and claim adjustment expenses with ULAE	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ 494</u>	<u>\$ 567</u>	<u>\$ 864</u>	<u>\$ 1,325</u>	<u>\$ 5,511</u>	<u>\$ 8,186</u>	<u>\$ 4,653</u>	<u>\$ 5,844</u>

**SCHOOLS EXCESS LIABILITY FUND**  
**CLAIMS DEVELOPMENT INFORMATION**  
**EXCESS WORKERS' COMPENSATION PROGRAM**  
(in thousands)  
**JUNE 30, 2017**

	<u>2008</u>	<u>2009</u>	<u>2010</u>
(1) Premiums Revenue:			
Earned	\$ 5,622	\$ 4,155	\$ 3,561
Ceded (by policy year)	(2,141)	(1,955)	(1,685)
Cumulative interest earned (by policy year)	748	300	103
Net earned	<u>4,229</u>	<u>2,500</u>	<u>1,979</u>
(2) Unallocated Expenses	\$ 1,009	\$ 824	\$ 1,095
(3) Estimated incurred claims and expense, end of policy year:			
Incurred	\$ 907	\$ 2,067	\$ 2,145
Ceded	-	-	-
Net Incurred	<u>907</u>	<u>2,067</u>	<u>2,145</u>
(4) Paid (Cumulative) as of:			
End of Policy Year	\$ -	\$ -	\$ -
One Year Later	-	-	-
Two Years Later	-	-	-
Three Years Later	-	188	81
Four Years Later	-	491	96
Five Years Later	61	552	201
Six Years Later	110	816	230
Seven Years Later	363	1,127	
Eight Years Later	713		
Nine Years Later			
(5) Re-estimated Ceded Losses and Expenses	\$ -	\$ -	\$ -
(6) Re-estimated incurred claims and expense:			
End of Policy Year	\$ 907	\$ 2,067	\$ 2,145
One Year Later	1,608	2,667	2,145
Two Years Later	3,727	2,668	3,278
Three Years Later	3,740	3,373	2,252
Four Years Later	3,162	3,814	2,323
Five Years Later	2,957	4,446	1,703
Six Years Later	2,736	3,556	3,029
Seven Years Later	2,389	6,103	
Eight Years Later	3,300		
Nine Years Later			
(7) Increase (decrease) in estimated incurred claims and expense from end of policy year	<u>\$ 2,393</u>	<u>\$ 4,036</u>	<u>\$ 884</u>
(8) Unpaid claims and claim adjustment expense with ULAE	<u>\$ 2,521</u>	<u>\$ 4,961</u>	<u>\$ 1,947</u>

# SCHOOLS EXCESS LIABILITY FUND

## SCHEDULE OF SELF'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AS OF JUNE 30, 2017 LAST 10 YEARS\*

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<i>Measurement Date Ended June 30:</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
SELF's proportion of the net pension liability	.019471%	.019327%	.02193%
SELF's proportionate share of the net pension liability	\$ 676,383	\$ 530,238	\$ 542,029
SELF's covered employee payroll	\$ 783,263	\$ 561,000	\$ 561,000
SELF's proportionate share of the net pension liability as a percentage of their covered-employee payroll	86.4%	94.5%	96.6%
Plan fiduciary net position as a percentage of the total pension liability	74.1%	78.4%	78.6%

\* - The measurement date ended June 30, 2014 was the 1st year of implementation, therefore only three years are shown.

### Notes to Schedule:

**Change of benefit terms.** For the measurement dates ended June 30, 2016, 2015 and 2014, there were no changes to the benefit terms.

**Changes in assumptions.** GASB 68 states that the long-term expected rate of return should be determined net pension plan investment expenses, but without reduction for pension plan administrative expense. The discount rate changed from 7.50% (net of administrative expenses in 2014) to 7.65% as of the June 30, 2015 measurement date to correct the adjustment, which previously reduced the discount rate for administrative expenses. There were no changes in assumptions for the measurement dates ended June 30, 2014 and 2016.

# SCHOOLS EXCESS LIABILITY FUND

## SCHEDULE OF CONTRIBUTIONS AS OF JUNE 30, 2017 LAST 10 YEARS\*

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<i>Fiscal Year Ended June 30:</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 116,083	\$ 105,452	\$ 80,717
Contributions in relation to the contractually required contributions	<u>(116,083)</u>	<u>(105,452)</u>	<u>(80,717)</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
SELF's covered-employee payroll	\$ 850,014	\$ 783,263	\$ 561,000
Contributions as a percentage of covered-employee payroll	13.7%	14.7%	14.4%

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

# SCHOOLS EXCESS LIABILITY FUND

## NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017 AND 2016

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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, 2017 for each policy year.

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

## **ADDITIONAL INFORMATION**

# SCHOOLS EXCESS LIABILITY FUND

## COMBINING STATEMENTS OF NET POSITION JUNE 30, 2017

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 5,423,679	\$ 3,705,600	\$ 333,512	\$ 9,462,791
Investments	261,102			261,102
Accounts receivable:				
Interest and other	108,230	160,489	653	269,372
Member assessments receivable		6,355,281		6,355,281
Prepaid expenses	27,565	1,982	9,763	39,310
Total current assets	<u>5,820,576</u>	<u>10,223,352</u>	<u>343,928</u>	<u>16,387,856</u>
Noncurrent assets:				
Investments	24,725,349	51,965,175		76,690,524
Member assessments receivable		31,767,402		31,767,402
Capital assets	21,030	9,486	1,350,434	1,380,950
Total noncurrent assets	<u>24,746,379</u>	<u>83,742,063</u>	<u>1,350,434</u>	<u>109,838,876</u>
Total assets	<u>30,566,955</u>	<u>93,965,415</u>	<u>1,694,362</u>	<u>126,226,732</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	<u>252,327</u>	<u>101,072</u>		<u>353,399</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	289,526	117,010	4,147	410,683
Unpaid claims and claim adjustment expenses	4,001,000	4,777,000		8,778,000
Total current liabilities	<u>4,290,526</u>	<u>4,894,010</u>	<u>4,147</u>	<u>9,188,683</u>
Noncurrent liabilities:				
Other liabilities		133,334		133,334
Net pension liability	482,937	193,446		676,383
Unpaid claims and claim adjustment expenses	23,001,345	71,103,661		94,105,006
Total noncurrent liabilities	<u>23,484,282</u>	<u>71,430,441</u>		<u>94,914,723</u>
Total liabilities	<u>27,774,808</u>	<u>76,324,451</u>	<u>4,147</u>	<u>104,103,406</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	<u>34,056</u>	<u>13,642</u>		<u>47,698</u>
<b>NET POSITION</b>				
Net investment in capital assets	21,030	9,486	1,350,434	1,380,950
Unrestricted	<u>2,989,388</u>	<u>17,718,908</u>	<u>339,781</u>	<u>21,048,077</u>
Total net position	<u>\$ 3,010,418</u>	<u>\$ 17,728,394</u>	<u>\$ 1,690,215</u>	<u>\$ 22,429,027</u>

# SCHOOLS EXCESS LIABILITY FUND

## COMBINING STATEMENTS OF NET POSITION JUNE 30, 2016

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3,498,241	\$ 2,914,672	\$ 184,454	\$ 6,597,367
Investments	1,771,987			1,771,987
Accounts receivable:				
Excess insurance recoverable	3,500,000			3,500,000
Interest and other	84,497	185,416		269,913
Member assessments receivable		6,355,281		6,355,281
Prepaid expenses	<u>40,747</u>	<u>6,627</u>	<u>12,708</u>	<u>60,082</u>
Total current assets	<u>8,895,472</u>	<u>9,461,996</u>	<u>197,162</u>	<u>18,554,630</u>
Noncurrent assets:				
Investments	27,465,901	53,178,185		80,644,086
Member assessments receivable		38,122,683		38,122,683
Capital assets	<u>20,786</u>	<u>8,773</u>	<u>1,469,308</u>	<u>1,498,867</u>
Total noncurrent assets	<u>27,486,687</u>	<u>91,309,641</u>	<u>1,469,308</u>	<u>120,265,636</u>
Total assets	<u>36,382,159</u>	<u>100,771,637</u>	<u>1,666,470</u>	<u>138,820,266</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows of resources related to pensions	<u>186,490</u>	<u>79,924</u>		<u>266,414</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	254,727	115,748	17,710	388,185
Unpaid claims and claim adjustment expenses	<u>13,483,000</u>	<u>5,845,000</u>		<u>19,328,000</u>
Total current liabilities	<u>13,737,727</u>	<u>5,960,748</u>	<u>17,710</u>	<u>19,716,185</u>
Noncurrent liabilities:				
Other liabilities		166,667		166,667
Net pension liability	371,168	159,070		530,238
Unpaid claims and claim adjustment expenses	<u>14,805,609</u>	<u>82,088,227</u>		<u>96,893,836</u>
Total noncurrent liabilities	<u>15,176,777</u>	<u>82,413,964</u>		<u>97,590,741</u>
Total liabilities	<u>28,914,504</u>	<u>88,374,712</u>	<u>17,710</u>	<u>117,306,926</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows of resources related to pensions	<u>171,544</u>	<u>73,589</u>		<u>245,133</u>
<b>NET POSITION</b>				
Net investment in capital assets	20,786	8,773	1,469,308	1,498,867
Unrestricted	<u>7,461,815</u>	<u>12,394,487</u>	<u>179,452</u>	<u>20,035,754</u>
Total net position	<u>\$ 7,482,601</u>	<u>\$ 12,403,260</u>	<u>\$ 1,648,760</u>	<u>\$ 21,534,621</u>

# SCHOOLS EXCESS LIABILITY FUND

## COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2017

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Member contributions	\$ 14,352,055	_____	_____	\$ 14,352,055
<b>OPERATING EXPENSES</b>				
Provision for unpaid claims and claim adjustment expenses	9,272,484	\$ (6,285,884)		2,986,600
Commercial reinsurance premiums	8,220,764	_____	_____	8,220,764
Total direct claims expenses	17,493,248	(6,285,884)	_____	11,207,364
General and administrative expenses:				
Contract services	211,652	133,274		344,926
Personnel costs	790,459	309,423		1,099,882
Administrative expenses	359,358	91,580	\$ 1,895	452,833
Building			116,961	116,961
Depreciation	9,050	3,878	117,912	130,840
Total general and administrative	1,370,519	538,155	236,768	2,145,442
Total operating expenses	18,863,767	(5,747,729)	236,768	13,352,806
Operating income (loss)	(4,511,712)	5,747,729	(236,768)	999,249
<b>NON-OPERATING REVENUES:</b>				
Rental income			276,966	276,966
Investment income (loss)	28,696	(423,920)	1,257	(393,967)
Other income (expense)	10,833	1,325	_____	12,158
Total non-operating revenues	39,529	(422,595)	278,223	(104,843)
Change in net position	(4,472,183)	5,325,134	41,455	894,406
Net position, beginning of year	7,482,601	12,403,260	1,648,760	21,534,621
Net position, end of year	<u>\$ 3,010,418</u>	<u>\$ 17,728,394</u>	<u>\$ 1,690,215</u>	<u>\$ 22,429,027</u>

# SCHOOLS EXCESS LIABILITY FUND

## COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION JUNE 30, 2016

	<u>Excess Liability</u>	<u>Excess Workers' Compensation</u>	<u>Building</u>	<u>Total</u>
<b>OPERATING REVENUE</b>				
Member contributions	\$ 10,982,004	_____	_____	\$ 10,982,004
Total operating revenues	<u>10,982,004</u>	_____	_____	<u>10,982,004</u>
<b>OPERATING EXPENSES</b>				
Provision for unpaid claims and claim adjustment expenses	18,942,208	\$ (4,104,296)		14,837,912
Commercial reinsurance premiums	<u>7,401,411</u>	_____	_____	<u>7,401,411</u>
	<u>26,343,619</u>	<u>(4,104,296)</u>	_____	<u>22,239,323</u>
General and administrative expenses:				
Contract services	312,169	159,738		471,907
Personnel costs	818,254	282,589		1,100,843
Administrative expenses	385,256	97,222	\$ 1,624	484,102
Building			129,104	129,104
Depreciation	<u>8,671</u>	<u>3,716</u>	<u>115,940</u>	<u>128,327</u>
Total general and administrative	<u>1,524,350</u>	<u>543,265</u>	<u>246,668</u>	<u>2,314,283</u>
Total operating expenses	<u>27,867,969</u>	<u>(3,561,031)</u>	<u>246,668</u>	<u>24,553,606</u>
Operating income (loss)	<u>(16,885,965)</u>	<u>3,561,031</u>	<u>(246,668)</u>	<u>(13,571,602)</u>
<b>NON-OPERATING REVENUES:</b>				
Rental income			267,696	267,696
Investment income	820,096	1,802,515		2,622,611
Other income	<u>19,546</u>	<u>6,741</u>	_____	<u>26,287</u>
Total non-operating revenues	<u>839,642</u>	<u>1,809,256</u>	<u>267,696</u>	<u>2,916,594</u>
Change in net position	(16,046,323)	5,370,287	21,028	(10,655,008)
Net position, beginning of year	<u>23,528,924</u>	<u>7,032,973</u>	<u>1,627,732</u>	<u>32,189,629</u>
Net position, end of year	<u>\$ 7,482,601</u>	<u>\$ 12,403,260</u>	<u>\$ 1,648,760</u>	<u>\$ 21,534,621</u>

**OTHER INDEPENDENT AUDITOR'S REPORT**

**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**

**Independent Auditor's Report**

**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), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered SELF's internal control over financial reporting (internal control) to determine the 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 audits 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 Associates, Inc.*

**GILBERT ASSOCIATES, INC.**  
**Sacramento, California**

**October 23, 2017**