

**MONTEREY BAY AREA
SELF INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2022 and 2021

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

FINANCIAL STATEMENTS
June 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Monterey Bay Area Self Insurance Authority
Scotts Valley, California

Opinion

We have audited the financial statements of the Monterey Bay Area Self Insurance Authority, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Monterey Bay Area Self Insurance Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Monterey Bay Area Self Insurance Authority, as of June 30, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the *State Controller's Minimum Audit Requirements for California Special Districts* and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority for California Cities Excess Liability, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Monterey Bay Area Self Insurance Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Monterey Bay Area Self Insurance Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Monterey Bay Area Self Insurance Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8, the Reconciliation of Claims Liabilities by Type of Contract on pages 20 through 21, and the Claims Development Information on pages 22 through 24, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise Monterey Bay Area Self Insurance Authority's financial statements. The Combining Statements of Net Position and Combining Statements of Revenues, Expenses and Change in Net Position are presented on pages 25 through 28 for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

The information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2022 on our consideration of Monterey Bay Area Self Insurance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Monterey Bay Area Self Insurance Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Monterey Bay Area Self Insurance Authority's internal control over financial reporting and compliance.


Crowe LLP

West Hartford, Connecticut
November 8, 2022

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

This section of *Monterey Bay Area Self Insurance Authority's* annual financial report presents our discussion and analysis of the Authority's financial performance during the years ended June 30, 2022 and 2021. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year activities, resulting changes and currently known facts, please read it in conjunction with the Authority's basic financial statements. Comparisons to and analysis of the prior year are incorporated where appropriate.

FINANCIAL HIGHLIGHTS

- The Authority's net position at June 30, 2022 ended at \$229,503 compared to \$(1,869,547) for the prior year. Since the Authority engages only in business-type activities, the increase is all in the category of business-type net position. Net Position was \$(37,056), \$(1,482,228), \$(1,877,265), \$(868,226), \$(1,224,941), and \$(3,113,719), for 2020, 2019, 2018, 2017, 2016, and 2015, respectively.
- Total operating expenses of all of the Authority's programs were \$11,372,014 for 2022, which decreased \$336,520 from 2021. The prior years' operating expenses were \$7,863,604, \$7,908,684, \$8,535,390, \$7,655,540, \$4,304,545, and \$8,366,326, for 2020, 2019, 2018, 2017, 2016, and 2015, respectively. The current year decrease was due to a decline in claims payments, while there was an uptick in insurance premiums and general and administrative expenses over the prior term.
- MBASIA's financial state has made a recovery to a positive net position since the last audit period, primarily due to a significant increase in revenues, as we prepare for continued high claims activity shown in the prior years. This is consistent with Public Entity loss trends in recent years, and MBASIA is increasing rates to continue to improve funding future years.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority has chosen to present its financial statements using the reporting model for special-purpose governments engaged in only business-type activities. This model allows all financial information for the organization to be reported in a single column in each of the financial statements. The effect of internal activity between funds and groups of funds has been eliminated from these financial statements.

The financial statements include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, Combining Statements of Net Position, Combining Statements of Revenues, Expenses and Changes in Net Position, Combining Statements of Cash Flows, Notes to the Financial Statements and this Management's Discussion and Analysis. Readers of these financial statements are encouraged to consider the report as a whole to obtain a complete understanding of the Authority's financial condition.

Statements of Net Position

The Statements of Net Position is a report of the Authority's assets, liabilities and net position. Assets and liabilities are reported at book value, on an accrual basis as of the statement date. Assets and liabilities have been segregated between Current (expected to be liquidated or paid within one year) and Noncurrent. Net position is reported in major categories reflecting any restriction thereon.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

Statements of Revenues, Expenses and Changes in Net Position

The Statements of Revenues, Expenses and Changes in Net Position presents the Authority's revenue earned and expense incurred during the period on an accrual basis. The Statements have been segregated into operating and non-operating sections.

Statements of Cash Flows

The Statements of Cash Flows presents the source and uses of cash and is segregated into operating, capital and related financing, noncapital financing and investing activities. The direct method of cash flows reporting has been used and an indirect method of calculating cash provided (used) by operations is also presented.

POOLED PROGRAMS

Workers' Compensation Program – Under the Workers' Compensation Program, the Authority provides Workers' Compensation coverage to member cities. The principal operating revenue for the Workers' Compensation Program is premiums collected from the members. Operating expenses for this program include claims expense, excess insurance premiums, contract risk management services expense, and administrative expenses.

MBASIA has taken steps to reduce the claims exposure to the Workers Compensation Program by purchasing excess insurance from PRISM at a \$250,000 self-insured retention, and steadily increasing the self-funded program's confidence level funding.

Liability Program – Under the Liability Program, the Authority provides liability insurance to member municipalities. The principal operating revenue for the Liability Program is premiums collected from the members. Operating expenses for this program include claims expense, contract risk management services expense, administrative expenses and insurance expense for excess of loss coverage.

MBASIA participates in CARMA for excess liability relief, with CARMA providing coverage for claims excess of \$1,000,000. Similarly, MBASIA participates in ERMA for excess employment practices coverage excess of \$500,000.

LOAN PAYOFF

The Authority took out a loan in 2004 from Zion's Bank and it was set to mature on October 1, 2024. The Board took action to fully prepay the loan during the fiscal year ended in June 30, 2018.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

COMPARATIVE ANALYSIS

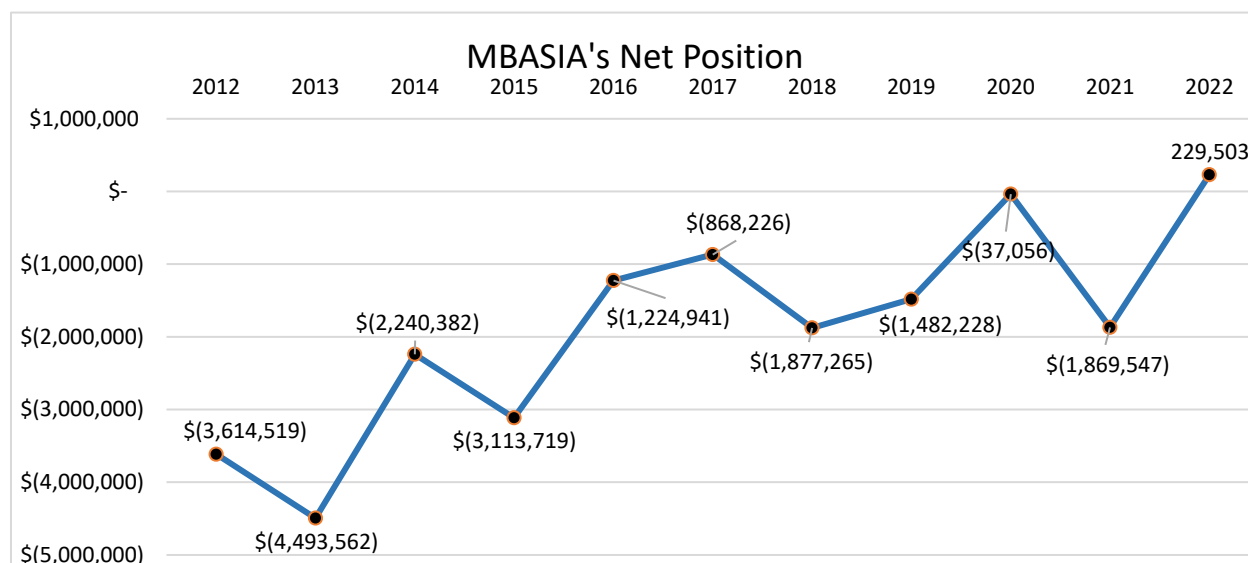
Statements of Net Position

A comparative summary of the Authority's Statements of Net Position as of June 30, 2022, 2021 and 2020, which generally reflects its financial condition is as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Current assets	\$ 13,303,185	\$ 20,119,681	\$ 19,089,722
Long-term assets	<u>7,310,803</u>	<u>-</u>	<u>-</u>
Total assets	<u>20,613,988</u>	<u>20,119,681</u>	<u>19,089,722</u>
Current liabilities	4,472,316	4,144,592	3,679,200
Long-term liabilities	<u>15,912,169</u>	<u>17,844,636</u>	<u>15,447,578</u>
Total liabilities	<u>20,384,485</u>	<u>21,989,228</u>	<u>19,126,778</u>
Net position -			
Unrestricted	<u>229,503</u>	<u>(1,869,547)</u>	<u>(37,056)</u>
Total net position	<u>\$ 229,503</u>	<u>\$ (1,869,547)</u>	<u>\$ (37,056)</u>

Major Factors Affecting the Statements of Net Position

Net position increased (decreased) by \$2,099,050, \$(1,832,491), and \$1,445,172 during the years ending June 30, 2022, 2021 and 2020, respectively. These results have been driven by increasing the confidence level funding of both the Workers Compensation and Liability program, most recently increasing the Liability program from 70% to 75% midterm during the FY 21/22. Expenses such as insurance premiums increased because of a hardening market, and general and administrative expenses also increased due to new loss control services.



MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

COMPARATIVE ANALYSIS (Continued)

Statements of Revenues, Expenses and Change in Net Position

A comparative summary of the Authority's Statements of Revenues, Expenses and Change in Net Position for the years ended June 30, 2022, 2021, and 2020, which generally reflects its results of operations, is as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Revenue:			
Contributions from members	\$ 11,062,597	\$ 9,084,247	\$ 8,217,291
Excess insurance recovery and reimbursements	2,342,362	690,378	772,893
Interest income	<u>66,105</u>	<u>101,418</u>	<u>318,592</u>
Total revenue	<u>13,471,064</u>	<u>9,876,043</u>	<u>9,308,776</u>
Expenses:			
Provision for claims and claims Adjustment expense	5,891,452	8,055,594	4,788,294
Insurance expense	4,252,267	2,795,769	2,219,096
Claims administration	291,613	285,500	279,000
Contract risk management services	292,000	301,901	243,612
Other risk management expenses	74,028	51,000	59,991
General and administrative	570,654	218,770	273,611
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>11,372,014</u>	<u>11,708,534</u>	<u>7,863,604</u>
Change in net position	<u>\$ 2,099,050</u>	<u>\$ (1,832,491)</u>	<u>\$ 1,445,172</u>

Major Factors Affecting the Statements of Revenues, Expenses and Change in Net Position

The main reason for an increase in net position is the significant increase in funding and recovery from the excess insurance carriers. MBASIA continues to increase funding to improve the financial position of the Authority, but expenses continue to rise.

For the Workers' Compensation program, MBASIA continues to fund at the 70% confidence level since 2018, while in 2017 the confidence level was 65%, and in 2016 the confidence level was 60%.

For the Liability program, MBASIA funds at the 70% confidence level, since 2017. In 2016 and prior, the confidence level was between 65% and 70%. The Board took action in October 2021 to bill the FY 21/22 second installment invoices sent on January 1, 2022 at the 75% confidence level.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

Reserves for Claims and Allocated Claims Adjustment Expenses

Reserves for Claims and Allocated Claims Adjustment Expenses for the years ended June 30, 2022, 2021, and 2020 are calculated as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Claim and claim adjustment expense reserves, beginning of year	\$ 21,894,636	\$ 19,105,578	\$ 18,644,110
Incurred claim and claim adjustment expenses, current and prior years	5,891,452	8,055,594	4,788,294
Payments, current and prior years	<u>7,425,919</u>	<u>5,266,536</u>	<u>4,326,826</u>
Claim and claim adjustment expense reserves, end of year	<u>\$ 20,360,169</u>	<u>\$ 21,894,636</u>	<u>\$ 19,105,578</u>

Further detail on the above amounts is provided in Footnote 3 and the Required Supplementary Information section of the Financial Statements which follow.

FACTORS AFFECTING FUTURE PERIODS

There are no material factors affecting near future periods.

REQUESTS FOR INFORMATION

This financial report has been designed to provide a general overview of the Authority's accounting for anyone interested in its finances. Questions concerning any of the information should be addressed to the attention of the MBASIA Treasurer, Brett Miller, City of Hollister, 327 Fifth Street, Hollister, CA 95023.

FINANCIAL STATEMENTS

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 STATEMENTS OF NET POSITION
 June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 12,589,967	\$ 19,921,292
Investments maturing within one year (Note 2)	617,874	-
Receivables:		
Member agencies	32,730	121,319
Interest	52,123	16,189
Prepaid expenses	<u>10,491</u>	<u>60,881</u>
Total current assets	<u>13,303,185</u>	<u>20,119,681</u>
Investments, less portion maturing in one year (Note 2)	<u>7,310,803</u>	<u>-</u>
Total assets	<u>\$ 20,613,988</u>	<u>\$ 20,119,681</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 24,316	\$ 94,592
Current portion of unpaid claims and claim adjustment expenses (Note 3)	<u>4,448,000</u>	<u>4,050,000</u>
Total current liabilities	4,472,316	4,144,592
Unpaid claims and claim adjustment expenses (Note 3)	<u>15,912,169</u>	<u>17,844,636</u>
Total liabilities	<u>20,384,485</u>	<u>21,989,228</u>
NET POSITION		
Total net position - unrestricted	<u>\$ 229,503</u>	<u>\$ (1,869,547)</u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Member contributions	\$ 11,062,597	\$ 9,084,247
Excess insurance recovery reimbursements	<u>2,342,362</u>	<u>690,378</u>
 Total operating revenues	 13,404,959	 9,774,625
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 3)	5,891,452	8,055,594
Insurance premiums	4,252,267	2,795,769
Claims administration	291,613	285,500
Contract risk management services	292,000	301,901
Other risk management expenses	74,028	51,000
General and administrative	<u>570,654</u>	<u>218,770</u>
 Total operating expenses	 <u>11,372,014</u>	 <u>11,708,534</u>
 Operating income (loss)	 2,032,945	 (1,933,909)
Non-operating income:		
Investment income	<u>66,105</u>	<u>101,418</u>
 Change in net position	 2,099,050	 (1,832,491)
 Net position, beginning of year	 <u>(1,869,547)</u>	 <u>(37,056)</u>
 Net position, end of year	 <u><u>\$ 229,503</u></u>	 <u><u>\$ (1,869,547)</u></u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from members and others	\$ 13,493,548	\$ 9,741,367
Cash paid for claims	(7,425,919)	(5,266,536)
Cash paid for insurance	(4,252,267)	(2,795,769)
Cash paid to suppliers	<u>(1,248,181)</u>	<u>(813,371)</u>
Net cash provided by operating activities	<u>567,181</u>	<u>865,691</u>
Cash flows provided by investing activities:		
Interest received	30,171	131,225
Investment purchases	<u>(7,928,677)</u>	<u>-</u>
Net cash (used) provided by investing activities	<u>(7,898,506)</u>	<u>131,225</u>
Net change in cash	(7,331,325)	996,916
Cash and cash equivalents, beginning of year	<u>19,921,292</u>	<u>18,924,376</u>
Cash and cash equivalents at end of year	<u><u>\$ 12,589,967</u></u>	<u><u>\$ 19,921,292</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 2,032,945	\$ (1,933,909)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Decrease (increase) in:		
Receivables from member agencies	88,589	(33,258)
Prepaid expenses	50,390	(29,592)
(Decrease) Increase in:		
Accounts payable	(70,276)	73,392
Unpaid claims and claim adjustment expenses	<u>(1,534,467)</u>	<u>2,789,058</u>
Net cash provided by operating activities	<u><u>\$ 567,181</u></u>	<u><u>\$ 865,691</u></u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: Monterey Bay Area Self Insurance Authority (the "Authority") is a public agency created on July 1, 1983, by and among nine municipalities in California to provide a pooled approach to workers' compensation insurance. Since then, two municipalities have joined and one municipality has withdrawn. The Authority established a group to provide for liability insurance for certain electing members. The Authority is not a component unit of any entity and has no component units itself.

The Authority was created pursuant to the provisions of Title I, Division 7, Chapter 5, Article I, of the California Government code and was established to develop risk management programs, share the risk of self-insured losses, and jointly purchase excess insurance and administrative and other services.

It is governed by a Board of Directors which is comprised of the City Managers or their designated alternates from each of the member entities. Member cities at June 30, 2022 and 2021 included Capitola, Del Rey Oaks, Gonzales, Greenfield, Hollister, King City, Marina, Sand City, Scotts Valley and Soledad.

The Authority has certain administrative duties and obligations to its members including accounting, reporting, claims administration and investment of funds. Contribution rates are determined on the basis of individual member's claims experience. Members are required to participate in safety and risk reduction programs. Any member desiring to withdraw from participation will remain liable for any unpaid claims.

Basis of Presentation: The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each program are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues and expenses. The Authority operates two programs, which are operated within a single enterprise fund:

Property and Liability Program: This program was established to account for the contributions received from members that are to be used to provide self-funded property and liability benefits.

Workers' Compensation Program: This program was established to account for the contributions received from members that are to be used to provide self-funded workers' compensation benefits.

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 as prescribed by the Governmental Accounting Standards Board. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents: Cash equivalents are investments readily convertible into known amounts of cash with original maturities at date of purchase of less than three months.

Investments: Investments are reported in the accompanying Statements of Net Position at fair value. Changes in fair value that occur during a fiscal year are recognized as investment earnings reported for that fiscal year. Investment income includes interest income, change in fair value, and any gains or losses realized upon the liquidations, maturity, or sale of investments.

Revenue Recognition: Member contributions are recognized as revenue when earned based upon the coverage period of the related insurance. Operating revenues and expenses include all activities necessary to achieve the objectives of the Authority. Non-operating revenues and expenses include investment and financing activity.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Provision for Unpaid Claims and Claim Adjustment Expenses: The Authority'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. The Authority increases the liability for allocated and unallocated claim adjustment expenses. Because actual claim 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 coverages such as general liability. 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.

Self-Insurance and Excess Insurance: The Authority provides Liability coverage for losses in excess of the individual members' \$10,000 retention. The Authority provides self-insurance coverage for members up to \$1,000,000 per occurrence and purchases excess insurance through California Affiliated Risk Management Authorities (CARMA), to a total program limit of \$39,000,000. The Authority has facilitated the purchase of property insurance through a group purchase but does not share any risk for property claims.

For the workers' compensation program, Members have no retention, and the Authority provides self-insurance up to \$250,000 per occurrence. For claims in excess of \$250,000, the Authority has facilitated the purchase of excess insurance through Public Risk Innovation, Solutions, and Management (PRISM) on behalf of its members.

Reinsurance: Although the Authority may elect to purchase reinsurance rather than utilizing self-insurance or excess insurance, for the years ended June 30, 2022 and 2021, no reinsurance was purchased.

Member Contributions: Under the Authority's Joint Powers Agreement, members must make a three-year commitment to participate in the Authority. Mid-term cancellation or withdrawal is not permitted and notice must be given to the Authority six months in advance. Withdrawing members are not entitled to a refund.

Income Taxes: The Authority 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.

Subsequent Events: Subsequent events have been evaluated through November 8, 2022, which is the date the financial statements were available to be issued.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2022 and 2021

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents:		
Cash in bank	\$ 575,854	\$ 1,207,000
Money market accounts	51,124	-
Cash in Local Agency Investment Fund	<u>11,962,989</u>	<u>18,714,292</u>
Total cash and cash equivalents	<u>12,589,967</u>	<u>19,921,292</u>
Investments	<u>7,928,677</u>	<u>-</u>
Total cash, cash equivalents and investments	<u>\$ 20,518,644</u>	<u>\$ 19,921,292</u>

Investments Authorized by the California Government Code and the Authority's Investment Policy: The Authority is authorized by the State statutes to invest in securities of the U.S. Treasury and agencies, related commercial paper, medium-term notes rated AA or better with maturities of 5 years or less, certificates of deposit, banker's acceptances, repurchase agreements, mutual funds, and the State of California's LOCAN Agency Investment Fund (LAIF). Additionally, security purchases and holdings shall be maintained within statutory limits imposed by the California Government Code. Currently, the maximum limits are:

	<u>Maximum Time to Maturity</u>	<u>Maximum Portfolio Percentage</u>
Bankers acceptance	180 days	40%
Commercial paper	270 days	25%
Negotiable certificates of deposit	5 years	30%
Medium-term corporate notes	5 years	30%
Time deposits	180 days	20%

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 value to changes in market interest rates. One of the ways that the Authority manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority has no specific limitations with respect to this metric.

<i>As of June 30, 2022:</i>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
<u>Investment Type</u>		
Federal agency securities	\$ 630,920	1.65
Asset-backed securities	530,580	3.62
U.S. corporate notes	1,223,768	3.31
U.S. Treasury notes	5,188,719	2.75
Commercial paper	149,232	0.27
Commercial mortgage obligation	98,266	2.49
Municipal bonds	27,009	4.71
Supranationals	<u>80,183</u>	2.01
 Total	 <u>\$ 7,928,677</u>	

Investments with Fair Values: The following presents information about the Authority's assets and liabilities measured at fair value on a recurring basis as of June 30, 2022 and 2021, and indicates the fair value hierarchy of the valuation techniques utilized by the Authority to determine such fair value based on the hierarchy:

Level 1 – Quoted market prices or identical instruments traded in active exchange markets.

Level 2 – Significant other observable inputs such as quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the methods that market participants would use in pricing an asset or liability.

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The Authority is required or permitted to record the following assets at fair value on a recurring basis:

<u>Description</u>	2022			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federal agency securities	\$ 630,920	\$ -	\$ 630,920	\$ -
Asset-backed securities	530,580	-	530,580	-
U.S. corporate notes	1,223,768	-	1,223,768	-
U.S. Treasury notes	5,188,719	-	5,188,719	-
Commercial paper	149,232	-	149,232	-
Commercial mortgage obligation	98,266	-	98,266	-
Municipal bonds	27,009	-	27,009	-
Supranationals	80,183	-	80,183	-
	<u>\$ 7,928,677</u>	<u>\$ -</u>	<u>\$ 7,928,677</u>	<u>\$ -</u>
Total	<u>\$ 7,928,677</u>	<u>\$ -</u>	<u>\$ 7,928,677</u>	<u>\$ -</u>

Fair value methodology: The Authority's investments are generally classified as Level 2 of the fair value hierarchy, because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable level of price transparency. The types of investments valued based on observable inputs includes federal agency securities, US corporate notes, asset backed securities, commercial paper and US Treasury. The primary observable inputs used in valuing these are the market prices of similar securities. As a result of this valuation methodology, all investment classifications have been classified as Level 2 of the fair value hierarchy for the years ended June 30, 2022.

Disclosures Relating to Credit Risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the entity's investment policy, or debt agreements, and the actual rating as of year-end for each investment type. The column marked "exempt from disclosure" identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	Ratings as of June 30, 2022		
			<u>AAA</u>	<u>AA</u>	<u>A</u>
Federal agency securities	\$ 630,920	\$ -	\$ -	\$ 630,920	\$ -
Asset-backed securities	530,580	-	530,580	-	-
U.S. corporate notes	1,223,768	-	-	290,194	933,574
U.S. Treasury notes	5,188,719	5,188,719	-	-	-
Commercial paper	149,232	-	-	-	149,232
Commercial mortgage obligation	98,266	-	98,266	-	-
Municipal bonds	27,009	-	-	27,009	-
Supranationals	80,183	-	80,183	-	-
	<u>\$ 7,928,677</u>	<u>\$ 5,188,719</u>	<u>\$ 709,029</u>	<u>\$ 948,123</u>	<u>\$ 1,082,806</u>
Total	<u>\$ 7,928,677</u>	<u>\$ 5,188,719</u>	<u>\$ 709,029</u>	<u>\$ 948,123</u>	<u>\$ 1,082,806</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Authority'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 governmental entity deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and are collateralized by the respective financial institution. At June 30, 2022, the carrying amount of the Authority's accounts was \$575,854 and the bank balances were \$635,714. At June 30, 2021, the carrying amount of the Authority's accounts was \$1,207,000 and the bank balances were \$1,326,908.

Local Agency Investment Fund: The Authority is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State of California and invests the cash. The Authority's investment in the pool is reported in the accompanying financial statements based upon the Authority's pro-rata share of the amortized cost as provided by LAIF in proportion to the amortized cost of entire LAIF portfolio. The funds held in the pooled investments funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds may be withdrawn at any time up to the total amount on deposit with LAIF. Most withdrawals are accessible and transferable to Authority's master account on the same day as the request, except for amounts greater than \$10,000,000, which require twenty-four hours' advance notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by Federal agencies, government-sponsored enterprises and corporations. LAIF is administered by the State Treasurer. As of June 30, 2022, this fund was yielding approximate interest rate of 0.75% annually. LAIF investments are audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall; Sacramento, California 95814.

Concentration of Investment Credit Risk: The Authority attempts to limit investments in any issuer to no more than 5% of total investments at the time of purchase. The Authority's investment policy further restricts concentrations of investments to no more than 5%, for certain investment types, such as U.S. corporate notes and supranationals. Federal agencies and government-sponsored agencies, such as FNMA, FCCB, FHLB and FHLMC are not subject to this restriction. At June 30, 2022, the Authority had the following investments that represent more than five percent of the Authority's net investments:

	<u>2022</u>
U.S. Treasury	65.4%
FHLB	5.1%

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 3 - UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities during the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 21,894,636	\$ 19,105,578
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	6,070,793	6,102,930
Change in provision for covered events of prior fiscal years	<u>(179,341)</u>	<u>1,952,664</u>
Total incurred claims and claim adjustment expenses	<u>5,891,452</u>	<u>8,055,594</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	568,238	678,515
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>6,857,681</u>	<u>4,588,021</u>
Total payments	<u>7,425,919</u>	<u>5,266,536</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 20,360,169</u>	<u>\$ 21,894,636</u>

The components of the unpaid claims and claim adjustment expenses for the Authority as of June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Claim reserves	\$ 9,310,000	\$ 9,779,000
Claims incurred but not reported (IBNR)	9,236,000	10,020,000
Unallocated loss adjustment expenses (ULAE)	<u>1,814,169</u>	<u>2,095,636</u>
	20,360,169	21,894,636
Current portion	<u>(4,448,000)</u>	<u>(4,050,000)</u>
	<u>\$ 15,912,169</u>	<u>\$ 17,844,636</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

NOTE 3 - UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES (Continued)

Due to changes in estimates of insured events in prior years, incurred losses and loss adjustment expenses decreased by \$179,341 during the year ended June 30, 2022. These were primarily the result of favorable loss development on miscellaneous policy years for the Authority's liability coverage, and a combination of favorable and unfavorable development miscellaneous policy years for the Authority's workers' compensation coverage.

Due to changes in estimates of insured events in prior years, incurred losses and loss adjustment expenses increased by \$1,952,664 during the year ended June 30, 2021. These were primarily the result of unfavorable loss development on miscellaneous policy years for the Authority's liability coverage, and a combination of favorable and unfavorable development miscellaneous policy years for the Authority's workers' compensation coverage.

These liabilities are reported at their present value using an expected future investment yield assumption of 1 percent for June 30, 2022 and 2021. The undiscounted liabilities are \$21,693,486 and \$22,871,491 at June 30, 2022 and 2021, respectively. The current portion of claim liabilities is estimated based on claims payment history.

NOTE 4 - RISKS AND UNCERTAINTIES

In December 2019, a novel strain of coronavirus surfaced and spread around the world, with resulting global business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The extent to which the coronavirus may continue to impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
For the Years Ended June 30, 2022 and 2021

The schedule below presents the changes in claims liabilities for the past two years of the Workers' Compensation Program:

	<u>2022</u>	<u>2021</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 16,649,269	\$ 15,737,308
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	4,102,694	4,392,419
Change in provision for covered events of prior fiscal years	<u>371,091</u>	<u>(381,989)</u>
Total incurred claims and claim adjustment expenses	<u>4,473,785</u>	<u>4,010,430</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	544,312	442,973
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>5,162,509</u>	<u>2,655,496</u>
Total payments	<u>5,706,821</u>	<u>3,098,469</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 15,416,233</u>	<u>\$ 16,649,269</u>

The components of the unpaid claims and claim adjustment expenses for the Workers' Compensation Program as of June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Claim reserves	\$ 6,885,000	\$ 7,069,000
Claims incurred but not reported (IBNR)	6,993,000	7,770,000
Unallocated loss adjustment expenses (ULAE)	<u>1,538,233</u>	<u>1,810,269</u>
	15,416,233	16,649,269
Current portion	<u>(2,564,000)</u>	<u>(2,525,000)</u>
	<u>\$ 12,852,233</u>	<u>\$ 14,124,269</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
LIABILITY PROGRAM
For the Years Ended June 30, 2022 and 2021

The schedule below presents the changes in claims liabilities for the past two years of the Authority's Liability Program:

	<u>2022</u>	<u>2021</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 5,245,367	\$ 3,368,270
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	1,968,099	1,710,511
Change in provision for covered events of prior fiscal years	<u>(550,432)</u>	<u>2,334,653</u>
Total incurred claims and claim adjustment expenses	<u>1,417,667</u>	<u>4,045,164</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	23,926	235,542
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>1,695,172</u>	<u>1,932,525</u>
Total payments	<u>1,719,098</u>	<u>2,168,067</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 4,943,936</u>	<u>\$ 5,245,367</u>

The components of the unpaid claims and claim adjustment expenses for the Property and Liability Program as of June 30, 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Claim reserves	\$ 2,425,000	\$ 2,710,000
Claims incurred but not reported (IBNR)	2,243,000	2,250,000
Unallocated loss adjustment expenses (ULAE)	<u>275,936</u>	<u>285,367</u>
	4,943,936	5,245,367
Current portion	<u>(1,884,000)</u>	<u>(1,525,000)</u>
	<u>\$ 3,059,936</u>	<u>\$ 3,720,367</u>

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
CLAIMS DEVELOPMENT INFORMATION
For the Years Ended June 30, 2022 and 2021

The tables that follow illustrate how the Authority'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 Authority 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 and reported investment revenue, amounts of premiums ceded and net earned reported premiums and reported investment revenue.
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. The cumulative net amounts paid as of the end of successive years for each policy year.
5. The latest reestimated amount of losses assumed by reinsurers for each policy year.
6. Policy year's incurred net claims increased or decreased as of the end of successive years. This annual re-estimation 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 3) and shows whether this latest estimate of claims cost is 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.

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

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
WORKERS' COMPENSATION PROGRAM - CLAIMS DEVELOPMENT INFORMATION
June 30, 2022

	Fiscal and Policy Years Ended June 30,									
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
1. Premiums and investment revenue										
Earned	\$ 3,764,840	\$ 3,877,332	\$ 3,982,543	\$ 4,047,439	\$ 4,825,975	\$ 4,498,341	\$ 4,810,382	\$ 4,764,851	\$ 5,163,395	\$ 5,419,197
Ceded	(502,384)	(544,284)	(372,833)	(525,152)	(637,280)	(649,869)	(643,874)	(851,921)	(1,009,992)	(1,089,082)
Net earned	<u>\$ 3,262,456</u>	<u>\$ 3,333,048</u>	<u>\$ 3,609,710</u>	<u>\$ 3,522,287</u>	<u>\$ 4,188,695</u>	<u>\$ 3,848,472</u>	<u>\$ 4,166,508</u>	<u>\$ 3,912,930</u>	<u>\$ 4,153,403</u>	<u>\$ 4,330,115</u>
2. Unallocated expenses	\$ 504,622	\$ 662,243	\$ 598,367	\$ 696,780	\$ 645,975	\$ 790,378	\$ 621,678	\$ 880,032	\$ 429,928	\$ 356,512
3. Estimated claims and expenses, end of policy year incurred	\$ 2,569,812	\$ 2,483,430	\$ 2,468,517	\$ 1,943,758	\$ 2,673,653	\$ 2,813,813	\$ 2,640,641	\$ 3,458,665	\$ 4,392,419	\$ 4,102,694
4. Paid cumulative as of:										
End of policy year	\$ 560,493	\$ 441,674	\$ 179,703	\$ 251,220	\$ 501,366	\$ 443,725	\$ 334,026	\$ 392,631	\$ 442,973	\$ 544,312
One year later	\$ 914,903	\$ 1,210,068	\$ 491,348	\$ 710,688	\$ 764,603	\$ 695,338	\$ 885,827	\$ 945,905	\$ 1,334,419	
Two years later	\$ 1,435,421	\$ 1,460,003	\$ 717,488	\$ 1,273,884	\$ 872,442	\$ 1,055,486	\$ 1,566,810	\$ 1,718,668		
Three years later	\$ 1,382,407	\$ 2,018,491	\$ 1,062,839	\$ 1,979,050	\$ 1,071,522	\$ 1,336,496	\$ 2,231,014			
Four years later	\$ 1,676,008	\$ 2,636,263	\$ 1,261,604	\$ 2,264,228	\$ 1,274,583	\$ 1,403,832				
Five years later	\$ 1,830,178	\$ 2,833,396	\$ 1,599,052	\$ 2,422,380	\$ 1,361,108					
Six years later	\$ 2,251,656	\$ 2,934,417	\$ 1,780,713	\$ 2,667,100						
Seven years later	\$ 2,307,580	\$ 3,082,281	\$ 2,019,109							
Eight years later	\$ 2,471,236	\$ 3,077,109								
Nine years later	\$ 2,856,515									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated Incurred claims and expenses										
End of policy year	\$ 2,569,812	\$ 2,483,430	\$ 2,468,517	\$ 1,943,758	\$ 2,673,653	\$ 2,813,813	\$ 2,640,641	\$ 3,458,665	\$ 4,392,419	\$ 4,102,694
One year later	\$ 2,454,045	\$ 2,767,084	\$ 1,584,988	\$ 1,915,756	\$ 2,392,458	\$ 2,477,968	\$ 2,972,726	\$ 3,296,336	\$ 4,511,750	
Two years later	\$ 2,535,904	\$ 2,574,710	\$ 1,603,926	\$ 2,495,279	\$ 1,031,518	\$ 2,553,154	\$ 3,669,766	\$ 3,423,156		
Three years later	\$ 2,131,313	\$ 3,127,699	\$ 1,841,119	\$ 2,901,284	\$ 2,578,390	\$ 2,356,131	\$ 3,599,835			
Four years later	\$ 2,426,122	\$ 3,295,882	\$ 1,970,845	\$ 3,337,714	\$ 2,398,564	\$ 2,029,133				
Five years later	\$ 2,622,589	\$ 3,444,360	\$ 2,298,567	\$ 3,157,171	\$ 2,074,194					
Six years later	\$ 2,790,688	\$ 3,576,241	\$ 2,313,628	\$ 3,411,082						
Seven years later	\$ 2,718,507	\$ 3,348,463	\$ 2,552,025							
Eight years later	\$ 2,918,660	\$ 3,267,162								
Nine years later	\$ 3,152,035									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	<u>\$ 582,223</u>	<u>\$ 783,732</u>	<u>\$ 83,508</u>	<u>\$ 1,467,324</u>	<u>\$ (599,459)</u>	<u>\$ (784,680)</u>	<u>\$ 959,194</u>	<u>\$ (35,509)</u>	<u>\$ 119,331</u>	<u>\$ -</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
LIABILITY PROGRAM - CLAIMS DEVELOPMENT INFORMATION
June 30, 2022

	Fiscal and Policy Years Ended June 30,									
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
1. Premiums and investment revenue										
Earned	\$ 1,146,867	\$ 1,260,614	\$ 1,590,963	\$ 1,782,000	\$ 2,088,999	\$ 2,375,000	\$ 2,584,889	\$ 3,095,474	\$ 3,182,639	\$ 4,100,072
Ceded	(408,624)	(321,778)	(489,467)	(521,318)	(543,606)	(617,060)	(642,747)	(693,638)	(917,958)	(1,554,360)
Net earned	<u>\$ 738,243</u>	<u>\$ 938,836</u>	<u>\$ 1,101,496</u>	<u>\$ 1,260,682</u>	<u>\$ 1,545,393</u>	<u>\$ 1,757,940</u>	<u>\$ 1,942,142</u>	<u>\$ 2,401,836</u>	<u>\$ 2,264,681</u>	<u>\$ 2,545,712</u>
2. Unallocated expenses	\$ 156,865	\$ 98,496	\$ 207,904	\$ 248,990	\$ 270,492	\$ 349,036	\$ 347,305	\$ 285,650	\$ 78,899	\$ 106,090
3. Estimated claims and expenses, end of policy year incurred	\$ 724,371	\$ 717,627	\$ 1,089,791	\$ 1,097,916	\$ 1,230,465	\$ 1,486,907	\$ 1,597,179	\$ 1,621,379	\$ 1,710,511	\$ 1,968,099
4. Net paid (cumulative) as of:										
End of policy year	\$ 44,710	\$ 30,827	\$ 114,978	\$ 4,901	\$ 27,197	\$ 60,233	\$ 54,019	\$ 16,780	\$ 235,542	\$ 23,926
One year later	\$ 70,663	\$ 833,982	\$ 234,289	\$ 494,149	\$ 843,923	\$ 374,898	\$ 155,238	\$ 601,043	\$ 655,619	
Two years later	\$ 328,231	\$ 1,246,772	\$ 579,732	\$ 771,809	\$ 1,627,511	\$ 1,002,234	\$ 207,202	\$ 923,176		
Three years later	\$ 627,820	\$ 1,574,269	\$ 483,920	\$ 985,847	\$ 1,458,894	\$ 1,297,260	\$ 377,863			
Four years later	\$ 590,087	\$ 1,578,540	\$ 483,920	\$ 1,008,939	\$ 1,559,194	\$ 2,116,163				
Five years later	\$ 709,135	\$ 1,567,471	\$ 483,920	\$ 1,066,145	\$ 2,235,147					
Six years later	\$ 677,855	\$ 1,566,555	\$ 484,708	\$ 1,386,294						
Seven years later	\$ 672,566	\$ 1,597,495	\$ 484,373							
Eight years later	\$ 672,566	\$ 1,597,495								
Nine years later	\$ 672,566									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated Incurred claims and expenses										
End of policy year	\$ 724,371	\$ 717,627	\$ 1,089,791	\$ 1,097,916	\$ 1,230,465	\$ 1,486,907	\$ 1,597,179	\$ 1,621,379	\$ 1,710,511	\$ 1,968,099
One year later	\$ 656,003	\$ 1,936,531	\$ 1,010,305	\$ 1,541,037	\$ 2,141,244	\$ 2,101,918	\$ 917,399	\$ 2,157,280	\$ 2,259,352	
Two years later	\$ 587,423	\$ 1,885,454	\$ 772,354	\$ 1,565,176	\$ 2,641,745	\$ 1,646,413	\$ 1,215,889	\$ 1,624,553		
Three years later	\$ 795,745	\$ 1,673,247	\$ 483,920	\$ 1,062,460	\$ 1,670,576	\$ 2,056,186	\$ 790,217			
Four years later	\$ 590,087	\$ 1,594,770	\$ 483,920	\$ 1,060,000	\$ 1,763,181	\$ 2,351,828				
Five years later	\$ 820,796	\$ 1,567,471	\$ 483,920	\$ 1,101,545	\$ 2,275,899					
Six years later	\$ 677,855	\$ 1,566,555	\$ 485,835	\$ 1,386,294						
Seven years later	\$ 672,566	\$ 1,597,495	\$ 484,373							
Eight years later	\$ 672,566	\$ 1,597,495								
Nine years later	\$ 672,566									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ (51,805)</u>	<u>\$ 879,868</u>	<u>\$ (605,418)</u>	<u>\$ 288,378</u>	<u>\$ 1,045,434</u>	<u>\$ 864,921</u>	<u>\$ (806,962)</u>	<u>\$ 3,174</u>	<u>\$ 548,841</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF NET POSITION
 June 30, 2022

ASSETS	Worker's <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 8,843,664	\$ 3,746,303	\$ -	\$ 12,589,967
Investments maturing within one year (Note 2)	432,078	185,796	-	617,874
Receivables:				
Member agencies	26,361	6,369	-	32,730
Interest	36,550	15,573	-	52,123
Prepaid expenses	(4,449)	14,940	-	10,491
Due to/due from other funds	<u>(288,543)</u>	<u>317,727</u>	<u>(29,184)</u>	<u>-</u>
 Total current assets	 <u>9,045,661</u>	 <u>4,286,708</u>	 <u>(29,184)</u>	 <u>13,303,185</u>
 Investments, less portion maturing in one year (Note 2)	 <u>5,112,428</u>	 <u>2,198,375</u>	 <u>-</u>	 <u>7,310,803</u>
 Total assets	 <u>14,158,089</u>	 <u>6,485,083</u>	 <u>(29,184)</u>	 <u>20,613,988</u>
 LIABILITIES				
Current liabilities:				
Accounts payable	16,942	7,374	-	24,316
Current portion of unpaid claims and claim adjustment expenses	<u>2,564,000</u>	<u>1,884,000</u>	<u>-</u>	<u>4,448,000</u>
 Total current liabilities	 2,580,942	 1,891,374	 -	 4,472,316
 Unpaid claims and claim adjustment expenses	 <u>12,852,233</u>	 <u>3,059,936</u>	 <u>-</u>	 <u>15,912,169</u>
 Total liabilities	 <u>15,433,175</u>	 <u>4,951,310</u>	 <u>-</u>	 <u>20,384,485</u>
 Total net position - unrestricted	 <u>\$ (1,275,086)</u>	 <u>\$ 1,533,773</u>	 <u>\$ (29,184)</u>	 <u>\$ 229,503</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF NET POSITION
 June 30, 2021

ASSETS	<u>Worker's Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 13,969,293	\$ 5,951,999	\$ -	\$ 19,921,292
Receivables:				
Member agencies	-	121,319	-	121,319
Interest	11,351	4,838	-	16,189
Prepaid expenses	-	60,881	-	60,881
Due to/due from other funds	<u>18,911</u>	<u>8,060</u>	<u>(26,971)</u>	<u>-</u>
Total assets	<u>13,999,555</u>	<u>6,147,097</u>	<u>(26,971)</u>	<u>20,119,681</u>
 LIABILITIES				
Current liabilities:				
Accounts payable	21,702	70,070	2,820	94,592
Current portion of unpaid claims and claim adjustment expenses	<u>2,525,000</u>	<u>1,525,000</u>	<u>-</u>	<u>4,050,000</u>
Total current liabilities	2,546,702	1,595,070	2,820	4,144,592
Unpaid claims and claim adjustment expense	<u>14,124,269</u>	<u>3,720,367</u>	<u>-</u>	<u>17,844,636</u>
Total liabilities	<u>16,670,971</u>	<u>5,315,437</u>	<u>2,820</u>	<u>21,989,228</u>
Total net position - unrestricted	<u>\$ (2,671,416)</u>	<u>\$ 831,660</u>	<u>\$ (29,791)</u>	<u>\$ (1,869,547)</u>

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2022

	<u>Worker's Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Operating revenues:				
Member contributions	\$ 5,356,346	\$ 4,096,818	\$ 1,609,433	\$ 11,062,597
Excess insurance recovery reimbursements	<u>2,289,643</u>	<u>52,719</u>	<u>-</u>	<u>2,342,362</u>
 Total operating revenues	 <u>7,645,989</u>	 <u>4,149,537</u>	 <u>1,609,433</u>	 <u>13,404,959</u>
Operating expenses:				
Provision for claims and claim adjustment expenses	4,473,785	1,417,667	-	5,891,452
Insurance premiums	1,089,082	1,554,360	1,608,825	4,252,267
Claims administration	146,000	146,000	-	292,000
Contract risk management services	196,640	94,973	-	291,613
Other risk management expenses	-	74,028	-	74,028
General and administrative	<u>402,527</u>	<u>168,127</u>	<u>-</u>	<u>570,654</u>
 Total operating expenses	 <u>6,308,034</u>	 <u>3,455,155</u>	 <u>1,608,825</u>	 <u>11,372,014</u>
 Operating income (loss)	 <u>1,337,955</u>	 <u>694,382</u>	 <u>608</u>	 <u>2,032,945</u>
Non-operating income:				
Interest income	<u>62,851</u>	<u>3,254</u>	<u>-</u>	<u>66,105</u>
 Change in net deficit	 1,400,806	 697,636	 608	 2,099,050
 Net position, beginning of year	 <u>\$ (2,671,416)</u>	 <u>\$ 831,660</u>	 <u>\$ (29,791)</u>	 <u>\$ (1,869,547)</u>
 Net position, end of year	 <u><u>\$ (1,270,610)</u></u>	 <u><u>\$ 1,529,296</u></u>	 <u><u>\$ (29,183)</u></u>	 <u><u>\$ 229,503</u></u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGE IN NET POSITION
 For the Year Ended June 30, 2021

	<u>Worker's</u> <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Operating revenues:				
Member contributions	\$ 5,092,285	\$ 3,152,331	\$ 839,631	\$ 9,084,247
Excess insurance recovery reimbursements	<u>535,382</u>	<u>154,996</u>	<u>-</u>	<u>690,378</u>
 Total operating revenues	 <u>5,627,667</u>	 <u>3,307,327</u>	 <u>839,631</u>	 <u>9,774,625</u>
Operating expenses:				
Provision for claims and claim adjustment expenses	4,010,430	4,045,164	-	8,055,594
Insurance premiums	1,009,992	917,957	867,820	2,795,769
Claims administration	142,750	142,750	-	285,500
Contract risk management services	187,664	114,237	-	301,901
Other risk management expenses	-	51,000	-	51,000
General and administrative	<u>112,045</u>	<u>106,725</u>	<u>-</u>	<u>218,770</u>
 Total operating expenses	 <u>5,462,881</u>	 <u>5,377,833</u>	 <u>867,820</u>	 <u>11,708,534</u>
 Operating income (loss)	 <u>164,786</u>	 <u>(2,070,506)</u>	 <u>(28,189)</u>	 <u>(1,933,909)</u>
Non-operating income:				
interest income	<u>71,110</u>	<u>30,308</u>	<u>-</u>	<u>101,418</u>
 Change in net deficit	 235,896	 (2,040,198)	 (28,189)	 (1,832,491)
 Net position, beginning of year	 <u>\$ (2,907,312)</u>	 <u>\$ 2,871,858</u>	 <u>\$ (1,602)</u>	 <u>\$ (37,056)</u>
 Net position, end of year	 <u>\$ (2,671,416)</u>	 <u>\$ 831,660</u>	 <u>\$ (29,791)</u>	 <u>\$ (1,869,547)</u>

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

To the Board of Directors and Members
Monterey Bay Area Self Insurance Authority
Scotts Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America, 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, the financial statements of Monterey Bay Area Self Insurance Authority as of and for the year ended June 30, 2022, and the related notes to financial statements which collectively comprise Monterey Bay Area Self Insurance Authority's financial statements and have issued our report thereon dated November 8, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

Report on Compliance and Other Matters

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

Purpose of this Report

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


Crowe LLP

West Hartford, Connecticut
November 8, 2022