



Financial Statements  
June 30, 2022

# Schools Alliance for Workers Compensation Excess

# Schools Alliance for Workers Compensation Excess

Torrance, California

Board of Directors

June 30, 2022

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# Schools Alliance for Workers Compensation Excess

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June 30, 2022

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## Independent Auditor's Report

The Board of Directors  
Schools Alliance for Workers Compensation Excess  
Torrance, California

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of Schools Alliance for Workers Compensation Excess (SAWCX II), which comprise the statements of net position as of June 30, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of SAWCX II as of June 30, 2022 and 2021, and the results of its operations and 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SAWCX II and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe 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 SAWCX II'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 judgement 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 including 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 SAWCX II'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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about SAWCX II'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 were 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 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2022 on our consideration of the SAWCX II's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SAWCX II's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAWCX II's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California  
November 18, 2022

The following report reflects on the financial condition of Schools Alliance for Workers' Compensation Excess Self-Funded Joint Powers Authority (SAWCX II) as of and for the fiscal years ended June 30, 2022 and June 30, 2021. It is provided in order to enhance the information in the financial management information report and the independent financial audit and should be reviewed with those reports.

#### **Introduction and Background:**

Schools Alliance for Workers' Compensation Excess Self-Funded Joint Powers Authority (SAWCX II) is a public risk sharing pool, established pursuant to a Joint Power Agreement effective July 1, 1988, to provide members a joint forum for the financing of workers' compensation claims and the joint purchasing of related products and services. At that time, schools faced skyrocketing insurance premiums and an inability to obtain adequate coverage. SAWCX II has helped their members by:

- Providing comprehensive coverage
- Offering competitive rates
- Providing financial security through prudent rate structures
- Creating a forum for discussion, study and development and implementation of risk sharing/risk management programs
- Remaining flexible to pursue the most expeditious funding alternatives on behalf of its members in light of changing market conditions

SAWCX II subsequently became the largest excess workers' compensation provider for schools in California, providing coverage to more than 350 public schools and community colleges. With the inception of "open rating" in 1993, most agencies left to pursue first-dollar "guaranteed cost" programs with commercial carriers, and the market has remained much more diversified since. However, SAWCX II remains to provide excess coverage to those public agencies who want to maintain a traditional self-insurance program with significant retentions and primary responsibility for claims administration. Given the limited spread of risk associated with reduced membership, SAWCX II has fully transferred risk of loss up to the program limits from July 1, 2004 through June 30, 2021, at which time they ceased facilitating excess insurance for their members. The historical retained losses continue to be in run-off.

SAWCX II is accredited with Excellence by the California Association of Joint Powers Authorities (CAJPA). CAJPA, the nation's first risk management accreditation program, establishes a model of professional standards that serves as a guide for all risk management pools. The accreditation process involves a detailed assessment by an independent third-party examiner of the JPA financials, operations, risk management, loss control, claims administration and statutory compliance. SAWCX II has received this accreditation since inception and has consistently been accredited "with excellence".

As of June 30, 2022, SAWCX II the Board of Directors consists of four individual member district representatives, each with equal vote. The Board elects from its Board a President, Vice President, Secretary and Treasurer.

### **Financial Management and Control**

SAWCX II is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

SAWCX II has contracted with Keenan & Associates for administrative management responsibilities. These services include ensuring that SAWCX II meets its commitment to the members for operational efficiency, organizational integrity and for implementing policies established by the Board of Directors as set forth in organizational documents and bylaws. Service Enhancement Technologies (SETECH), a Division of Keenan & Associates, provides financial management and reporting to the Board. Budgetary control is provided by verification of budgeted amounts before expenses and analysis of all account totals compared to budgeted amounts. Detailed financial statements and Treasurer's Reports include budget-to-actual comparisons and are provided to the SAWCX II Board. A comprehensive financial management information report is provided annually and is the basis for the independent financial audit.

SAWCX II, through its Manager, has contracted with Bay Actuarial Consultants to provide an independent actuarial review of the program which confirms the adequacy and reasonableness of the liabilities recorded as outstanding claim reserves for those program years.

Eide Bailly LLP, Certified Public Accountants, was contracted to perform the independent audit as of June 30, 2022. The independent audit of the financial statements was performed in accordance with auditing standards generally accepted in the United States of America. SAWCX II has contracted with J.P. Morgan Securities to manage their Investment Portfolio and is monitored by them for compliance with California Government Codes and the current Investment Policy.

### **Financial Statements**

SAWCX II's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. The financial statements include the Statement of Net Position, Statement of Revenues, Expenditures and Changes in Net Position, and Statement of Cash Flows.

The Statement of Net Position provides information on SAWCX II's program assets and liabilities, with the difference reported as Designated/Undesignated Net Position. The Statement of Revenues, Expenditures and Changes in Net Position presents information showing total revenues versus total expenditures for fiscal years 2021-2022 and 2020-2021 and the resulting effect on Net Position. The Statement of Cash Flows provides a reconciliation of the change during the fiscal year 2021-2022 and 2020-2021 in cash and cash equivalents.



## Schools Alliance for Workers Compensation Excess

Management's Discussion and Analysis

June 30, 2022 and 2021

SAWCX II calculates the financial position of each program year on the basis that each year stands on its own. Specifically, that means that the funding determined necessary for each claim year is collected in that claim year, and all liabilities and expenses of each claim year are accounted for in the year they are incurred. At the close of each year, an evaluation of the net position of individual program years is conducted. In order to retain sufficient funds necessary to meet all outstanding program liabilities, the Board has adopted a minimum of a 90 percent capital target as determined by the program actuary. Any funds in excess of this amount are eligible for return to members.

### Statement of Net Position:

Below is a summary of the Statement of Net Position showing total assets versus total liabilities with the percentage of change from the 2021-2022 and 2020-2021 program years.

	Fiscal Year Ended June 30,		Difference	Percentage
	2022	2021		
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,376,283	\$ 3,116,142	\$ 260,141	8.35 %
Accounts receivable	25,621	26,967	(1,346)	(4.99)
Prepaid expense	1,000	750	250	33.33
Prepaid interest	5,200	5,510	(310)	(5.63)
Investments	3,580,446	1,296,152	2,284,294	176.24
Total current assets	6,988,550	4,445,521	2,543,029	57.20
<b>Non-Current Assets</b>				
Investments	3,735,276	6,869,260	(3,133,984)	(45.62)
Total assets	10,723,826	11,314,781	(590,955)	(5.22)
<b>Current Liabilities</b>				
Accounts payable	81,196	65,608	15,588	23.76
Unearned revenue	-	-	-	-
Current portion of unpaid claims and claims adjustment expense	716,190	862,000	(145,810)	(16.92)
Total current liabilities	797,386	927,608	(130,222)	(14.04)
<b>Non-Current Liabilities</b>				
Unpaid claims and claims adjustment expense less current portion	3,476,078	4,467,502	(991,424)	(22.19)
ULAE, net of current portion	364,263	395,760	(31,497)	(7.96)
Total non-current Liabilities	3,840,341	4,863,262	(1,022,921)	(21.03)
Total liabilities	4,637,727	5,790,870	(1,153,143)	(19.91)
Undesignated	6,086,099	5,523,911	562,188	10.18
Total net position	\$ 6,086,099	\$ 5,523,911	\$ 562,188	10.18 %

# Schools Alliance for Workers Compensation Excess

Management's Discussion and Analysis

June 30, 2022 and 2021

The overall assets of SAWCX II increased by \$562,188 or 10.18 percent to \$6,086,099 which is mainly attributed to:

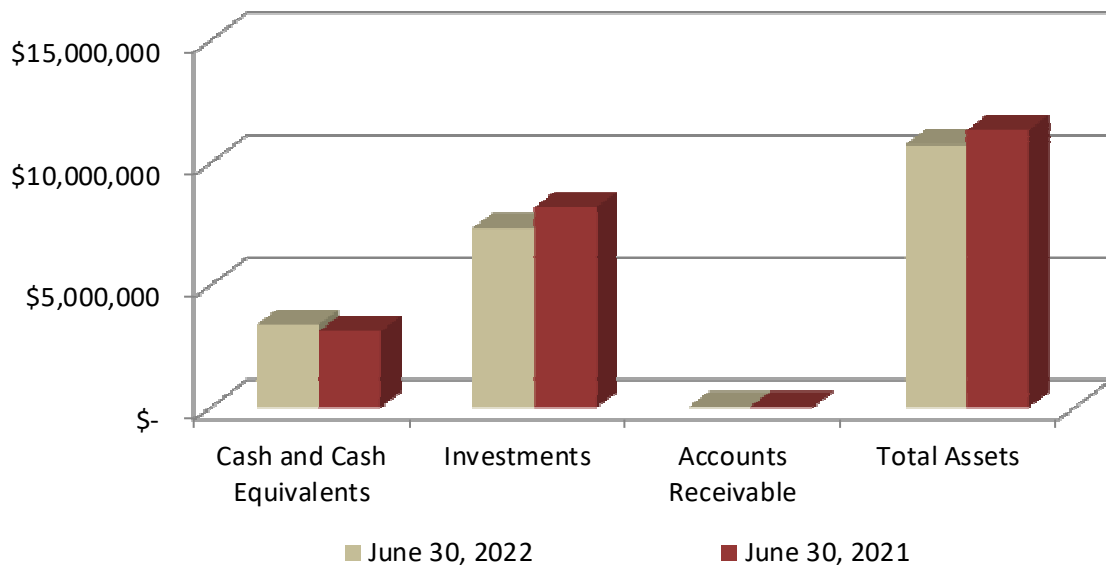
- Claims paid in the 2003-2004 and prior years of \$118,626,
- Claims Administration Fees and Admin/Management paid in the amount of \$27,000 and \$90,745 respectively, which is allocated to the self-insured program years,
- An increase in Accounts Payable of \$15,588.

This has been offset by:

- A decrease to the Net Investment Income of \$314,607.

The Investment Portfolio (including Money Market Account), managed by JP Morgan Securities, decreased in 2021-2022 by \$301,928 to \$8,669,181 this is due and an adjustment for Fair Value offset by interest earned on the Investment Portfolio. SAWCX II invests those funds not immediately necessary for the payment of claims in order to optimize the rate of return. Funds are invested in a manner that will protect principal, allow for cash flow needs and optimize returns, and are in conformity with all Federal, State, and local statutes governing such investment of public funds. Those assets needed for current operations are maintained in the LAIF in Sacramento, California, which is administered by the State Treasurer's Office.

Below is the allocation of Total Assets of \$10,723,826 as of June 30, 2022



SAWCX II annually reviews their adopted Investment Policy, which allows for up to 30 percent of the portfolio which can be invested in corporate securities with stated final maturities under 5 years and a quality rating of A or better by either S&P or Moody's. The Investment Portfolio, including Money Market Funds, as of June 30, 2022, is \$8,669,181.

#### **Liabilities:**

The overall liabilities of SAWCX II decreased in 2021-2022 by \$1,153,143 or 19.91 percent, which is mainly due to:

- A decrease to the actuarially determined undiscounted estimated ultimate incurred of \$450,000,
- Claims paid for the 2003/2004 and prior program years of \$118,626,
- A decrease in Unallocated loss Adjustment Expense (ULAE) of \$32,307,
- An increase in Accounts Payable of \$15,588.

#### **Net Position:**

SAWCX II Net Position of \$6,086,099 reflects an actuarially determined amount, which is greater than 90% probability level funding of its outstanding liabilities. An 90% probability level gives you the probability that nine out of ten years the funding will be adequate to cover claim liabilities. Probability level funding recommendations based upon the Bay Actuarial Consultants study dated September 2022 are:

- 70% probability level \$ 333,286
- 80% probability level \$ 958,198
- 90% probability level \$ 1,999,717

Schools Alliance for Workers Compensation Excess  
Management's Discussion and Analysis  
June 30, 2022 and 2021

**Statements of Revenue, Expenditures, and Changes in Net Position:**

Expenditures exceeded revenues by \$562,188 in 2021-2022, resulting in a decrease to the Net Position of 10.18 percent as shown in the Condensed Statement of Net Position below.

	Fiscal Year Ended June 30,		Difference	Percentage
	2022	2021		
Operating Revenue				
Premium contributions	\$ (29,536)	\$ 1,456,283	\$ (1,485,819)	(102.03) %
Operating Expenses				
Administrative expenses	173,310	174,685	(1,375)	(0.79)
Claims activity	(1,050,105)	(1,187,199)	137,094	(11.55)
Excess reinsurance	(29,536)	1,398,860	(1,428,396)	(102.11)
Total operating expenses	(906,331)	386,346	(1,292,677)	(334.59)
Non-Operating Revenues (Expenses)				
Net change in fair value of investments	(435,007)	(128,129)	(306,878)	239.51
Investment income	120,400	160,139	(39,739)	(24.82)
Total non-operating revenues (expenses)	(314,607)	32,010	(346,617)	(1,082.84)
Net Change in Net Position	562,188	1,101,947	(539,759)	(48.98)
Beginning Net Position	5,523,911	4,421,964	1,101,947	24.92
Ending Net Position	\$ 6,086,099	\$ 5,523,911	\$ 562,188	10.18 %

As previously discussed SAWCX II has ceased facilitating excess insurance for their members July 1, 2021. Member contributions decreased by 102.03 percent to a credit of \$29,536, which represents the Estimated to Actual Payroll Adjustment for 2020-2021.

Total Operating Expenditures, including the provision for covered events, decreased by 334.59 percent in 2021-2022 to \$906,331. This is mainly due to:

- A decrease in Excess Reinsurance which is consistent with Premium Contributions

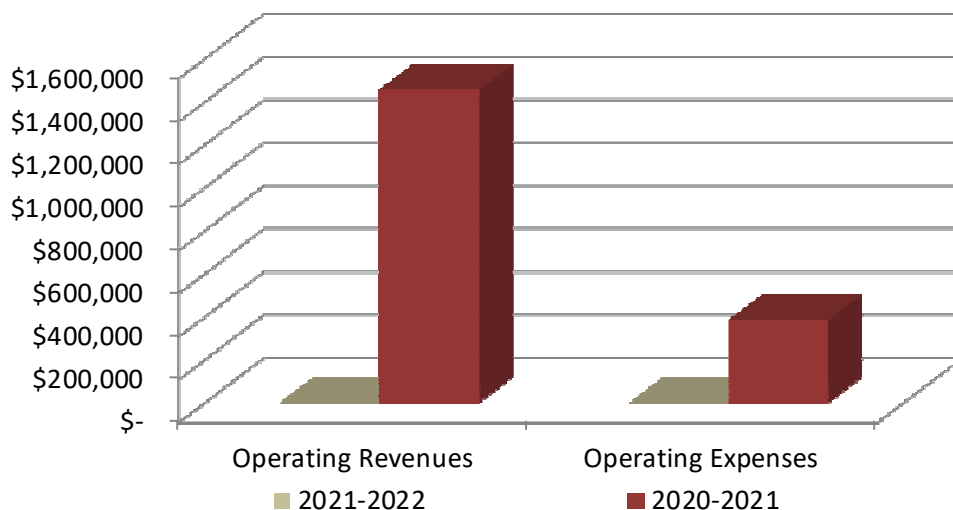
This has been offset by:

- A slight decrease in the category of Claims Activity due to a decrease in the actuarially determined undiscounted estimated ultimate incurred of \$450,000 in the self-insured program years of 2003/2004 and older.

As in past years, the general administration expenditures represent about 2 percent of the overall pool expenditures. This figure includes administrative and finance expenditures, including the costs of SAWCX II's Board of Directors and Committee meetings.

Non-Operating revenues/expenditures decreased in 2021/2022 by \$346,617, which is represented by a decrease in Investment Income of \$39,739 and a decrease in the Adjustment for Fair Value (FV) of \$306,878. The decrease in fair value of \$435,007 as required by GASB Statement No. 31 is reported on the Statement of Net Position. Fair Value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale."

Below is a graph reflecting operating income and expenses in 2021-2022 and 2020-2021.



## Schools Alliance for Workers Compensation Excess

Management's Discussion and Analysis

June 30, 2022 and 2021

### Budgetary Highlights:

Each year the SAWCX II Board of Directors approves a budget and establishes rates and funding levels for the program year. The preliminary budget is brought to the Executive Committee in July, with a final budget to be approved by the Full Board no later than October. The final budget incorporates any changes in assumptions or projections that have been made subsequent to the approval of the preliminary budget. SAWCX II is not required to make mid-year budget adjustments.

The following is a summary of the budget information with a comparison to actual expenditures: Variances in total revenue are due to the estimated to actual payroll adjustment for the 2020/2021 program year, which is also reflected in the excess insurance premiums. Another variance to the adopted budget is the Claims Activity which is less than budgeted by \$1,050,105. This is a result of the net decrease in the actuarially determined estimated ultimate incurred as previously discussed.

	Final Budget	Actual	Budget/ Actual Variance	Percentage
Operating Revenue				
Annual contribution premiums	\$ -	\$ (29,536)	\$ (29,536)	(100.00) %
Operating Expenses				
Administrative expenses	180,810	173,310	(7,500)	(4.15)
Excess reinsurance	-	(29,536)	(29,536)	-
Claims activity	-	(1,050,105)	(1,050,105)	-
Total operating expenses	<u>180,810</u>	<u>(906,331)</u>	<u>(1,087,141)</u>	<u>(601.26)</u>
Non-Operating Revenues (Expenses)				
Net adjustment for fair value on investments	-	(435,007)	(435,007)	-
Investment income	<u>105,559</u>	<u>120,400</u>	<u>14,841</u>	<u>14.06</u>
Total non-operating revenues (expenses)	<u>105,559</u>	<u>(314,607)</u>	<u>(420,166)</u>	<u>(398.04)</u>
Change in Net Position	(75,251)	562,188	637,439	(847.08)
Beginning Net Position	<u>5,523,911</u>	<u>5,523,911</u>	-	-
Ending Net Position	<u>\$ 5,448,660</u>	<u>\$ 6,086,099</u>	<u>\$ 637,439</u>	<u>11.70 %</u>

### Description of Facts or Conditions Expected to Have a Significant Effect on Financial Position or Results of Operations

California Workers' Compensation claims experience have continued to trend lower as a result of SB 863 passed in 2012 which brought systematic efficiencies and appears to have stabilized medical costs. This outlook applies equally to large Public Entities and other large JPAs.

# Schools Alliance for Workers Compensation Excess

Statements of Net Position

June 30, 2022 and 2021

	2022	2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,376,283	\$ 3,116,142
Interest receivable	25,621	26,967
Prepaid expense	1,000	750
Investments - prepaid interest	5,200	5,510
Investments maturing within one year	3,580,446	1,296,152
Total current assets	6,988,550	4,445,521
<b>Non-Current Assets</b>		
Investments, net of amount maturing within one year	3,735,276	6,869,260
Total assets	10,723,826	11,314,781
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	54,471	54,471
Claims payable (Trust account replenishment)	26,725	11,137
Unallocated Loss Adjustment Expense (ULAE)	26,190	27,000
Liabilities on unpaid claims	690,000	835,000
Total current liabilities	797,386	927,608
<b>Non-Current Liabilities</b>		
ULAE, net of current portion	364,263	395,760
Liabilities on unpaid claims, net of current portion	3,476,078	4,467,502
Total non-current liabilities	3,840,341	4,863,262
Total liabilities	4,637,727	5,790,870
Net Position - Unrestricted	\$ 6,086,099	\$ 5,523,911

**Schools Alliance for Workers Compensation Excess**  
**Statements of Revenues, Expenses, and Changes in the Net Position**  
**Years Ended June 30, 2022 and 2021**

	2022	2021
Operating Revenues		
Member Contributions	\$ (29,536)	\$ 1,456,283
Operating Expenses		
Claims paid	118,626	393,023
Excess insurance	(29,536)	1,398,860
Credit for estimated unpaid claims	(1,136,424)	(1,489,984)
Credit for unallocated loss adjustment expenses	(32,307)	(90,238)
Management fees	147,993	148,615
Other insurance	10,567	11,153
Claims audit	2,000	-
Administrative expenses	12,750	14,917
Total operating expenses	(906,331)	386,346
Operating Income	876,795	1,069,937
Non-Operating Revenue (Expense)		
Investment income	115,150	159,892
Other Income	5,250	247
Realized gains on investments	534	365
Net unrealized gain (loss) on fair value of investments	(435,541)	(128,494)
Total non-operating revenue (expense)	(314,607)	32,010
Change in Net Position	562,188	1,101,947
Net Position, Beginning of Year	5,523,911	4,421,964
Net Position, End of Year	\$ 6,086,099	\$ 5,523,911



## Schools Alliance for Workers Compensation Excess

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Operating Activities		
Cash received from members and others	\$ 29,536	\$ 1,456,924
Insurance deposits and premiums paid	(29,476)	(1,398,860)
Claims paid	(103,038)	(393,023)
General and administrative expenses paid	(173,310)	(225,171)
	(276,288)	(560,130)
Net Cash Used in Operating Activities		
Investing Activities		
Proceeds from sales, maturities and (paydowns) of investments	(2,284,294)	5,121,625
Cash paid for purchases of investments	3,133,984	(5,494,571)
Change in fair value of investments	(407,226)	248
Investment income received	93,965	170,708
	536,429	(201,990)
Net Cash Provided by (Used in) Investing Activities		
Net Change in Cash and Cash Equivalents	260,141	(762,120)
Cash and Cash Equivalents, Beginning of Year	3,116,142	3,878,262
	\$ 3,376,283	\$ 3,116,142
Cash and Cash Equivalents, End of Year		
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income	\$ 876,795	\$ 1,069,937
Adjustments to reconcile operating income to net cash used in operating activities		
Changes in Assets and Liabilities		
Contributions receivable	-	641
Prepaid expense	60	(333)
Accounts payable	15,588	(50,153)
Administrative run-off	(32,307)	(90,238)
Liabilities for unpaid claims	(1,136,424)	(1,489,984)
Total adjustments	(1,153,083)	(1,630,067)
Net Cash Used in Operating Activities	\$ (276,288)	\$ (560,130)
Supplemental Disclosure		
Noncash Investing and Financing Activities		
Change in Unrealized Gain in Fair Market Value of Investments	\$ (435,007)	\$ (128,129)

**Note 1 - Summary of Significant Accounting Policies****A. Reporting Entity**

The Schools Alliance for Workers' Compensation Excess Self-Funded Joint Powers Authority (SAWCX II) (SAWCX II) became operative July 1, 1988, under the provisions of Title I, Division 7, Chapter 5, Article I (Sections 6500 et seq.) of the *California Government Code*. SAWCX II was established to provide services and other items necessary and appropriate for the establishment, operation, and maintenance of a joint program for workers' compensation excess protection for the public educational agencies who are members and to provide a forum for discussion, study, development, and implementation of recommendations of mutual interest regarding programs of workers' compensation excess insurance.

SAWCX II is governed by a board whose members are elected by the participating members' governing boards and has decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. Should the total obligations of SAWCX II exceed the total assets of SAWCX II, the members may be assessed a share of the additional contribution as determined by the Board of Directors. Authority members currently include three School Districts and two Community College Districts.

SAWCX II is a risk-financing program whereby members pool their risk for excess workers' compensation coverage. Under SAWCX II's agreement, the pool self-insures up to a maximum for individual workers' compensation claims. Claims in excess of these amounts are insured to various levels. Revenues are primarily contributions from members established by the Board based upon actuarial analysis, and are planned to match expenses such as claims, insurance premiums for coverage in excess of self-insured retention, and operating expenses. Surplus/deficits are the equity/liability of the member districts. A formal dividend policy has not been established by SAWCX II's board of directors.

Effective July 1, 2004 through July 1, 2021, SAWCX II provided fully insured excess workers' compensation coverage:

- Member Retained Limit: From \$500,000 per occurrence
- Excess Coverage: Statutory limits per occurrence in excess of \$500,000

**B. Basis of Accounting**

The accompanying financial statements are presented as a proprietary fund on the accrual basis of accounting in accordance with Governmental Generally Accepted Accounting Principles. Under the accrual basis, revenues and the related assets are recognized when earned, and expenses and related liabilities are recognized when the obligation is incurred. Operating revenues include member contributions net of any applicable rate credits. Operating expenses include the provision for claims and claims adjustment expenses, insurance premiums, premium rebates, and general and administrative expenses. All other revenues and expenses are considered non-operating.

### **C. Budgets and Budgetary Accounting**

Annually, the Board of Directors adopts a budget that is subject to amendment throughout the year to give consideration to unanticipated revenue and expenses primarily resulting from events unknown at the time of budget adoption.

### **D. 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 that 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 those estimates.

### **E. Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, SAWCX II considers all investment instruments purchased with an original maturity of three months or less to be cash equivalents. SAWCX II considers deposits with the State Investment Pool to be cash equivalents during the fiscal years ended June 30, 2022.

### **F. Fair Value of Pooled Investments**

SAWCX II records its cash in the State Investment Pool - Local Agency Investment Fund (LAIF) at fair value. Changes in fair value are reported as non-operating revenue in the statements of income, expenses, and change in net position. SAWCX II's investment in LAIF has been valued based on the relative fair value of the entire external pool to the external pools respective amortized cost.

### **G. Investments**

Investments are reported in the accompanying Statement 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 the interest and dividend income change in fair value and any gains or losses realized upon the liquidation maturity or sale of investments.

### **H. Revenue Recognition**

Member's 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 SAWCX II. Non-operating revenues include investment activities. Annually the members are billed or credited depending on an increase or decrease in final payroll versus the estimate that was provided during the previous year. Due to the timing and instability of the adjustments it is considered not reasonably estimatable, and therefore no accrual has been made for the current year.

**I. Accounts Receivable**

Accounts receivable generally includes investment earnings on deposits, member contributions, and insurance recoveries. Management has analyzed these accounts and believes all amounts are fully collectible and therefore an allowance for doubtful accounts has not been established.

**J. Claims Liabilities**

SAWCX II establishes claims liabilities based on estimates of the ultimate cost of claims (including future claims administrative costs) net of ceded amounts that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are computed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. Estimated amounts that are recoverable from reinsurers reduce the liabilities for unpaid claims and claims adjustment expenses. As of June 30, 2022, the amount reduced from unpaid claims and claims adjustment expenses is not reasonably estimated.

**K. Excess Insurance**

SAWCX II uses excess insurance agreements to reduce its exposure to large losses. Excess insurance permits recovery of a portion of losses from excess insurance carriers, although it does not discharge the primary liability of SAWCX II as direct insurer of the risks insured. SAWCX II does not report excess insurance risks as liabilities unless it is probable that those risks will not be covered by excess insurance carriers.

**L. Income Taxes**

SAWCX II's income is exempt from Federal and State income taxes under Internal Revenue Code Section 115, and the corresponding section of the California Revenue and Taxation Code.

**Change in Accounting Principles****Implementation of GASB Statement No. 92**

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following that is applicable to the JPA: reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers.

# Schools Alliance for Workers Compensation Excess

Notes to Financial Statements

June 30, 2022 and 2021

The provisions of this Statement have been implemented as of June 30, 2022.

## Note 2 - Cash and Investments

### A. Cash and Cash Equivalents

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

	2022	2021
Cash and cash equivalents		
Trust account	\$ 300,000	\$ 300,000
Checking account	534	231
Money market funds	1,348,259	800,187
State Investment Pool	1,727,490	2,015,724
Total cash and cash equivalents	\$ 3,376,283	\$ 3,116,142

### B. Investments

Investments as of June 30, 2022 and 2021, were classified as follows:

	2022	2021
U.S. Agency Securities	\$ 1,475,878	\$ -
Corporate Bonds	2,275,406	2,921,281
Certificates of Deposit	3,564,438	5,244,131
Total investments	\$ 7,315,722	\$ 8,165,412

### C. Policies and Practices

SAWCX II is authorized under *California Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

SAWCX II annually adopts, reviews and revises (as needed) an investment policy. Based upon SAWCX II's bylaws: "The Full Board shall have the power to invest or cause to be invested in compliance with Section 6509.5 of the *California Government Code*, such reserve surplus funds as are not necessary for the immediate operation of SAWCX II in such securities as allowed by Section 53601 of the *California Government Code*."

**D. Investment in the State Investment Pool**

SAWCX II is a voluntary participant in the Local Authority Investment Fund (LAIF) that is regulated by *California Government Code* Section 16429 under the oversight of the Treasurer of the State of California. The fair value of SAWCX II's investment in the pool is reported in the accompanying financial statement at amounts based upon SAWCX II's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis. The average maturity for LAIF deposits is 311 days. Deposits with LAIF are not required to be rated for credit risk. For additional information visit LAIF's website at: [www.treasurer.ca.gov/pmia-laif](http://www.treasurer.ca.gov/pmia-laif).

**E. General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

SAWCX II has placed the following further restrictions in *California Government Code* on the investment advisors:

1. No derivative securities of any type will be allowed.
2. Stated final maturities will be five years or under.
3. Thirty percent of the portfolio can be invested in corporate securities with stated final maturities under five years and a quality rating of A or better. Any corporate security that is subsequently downgraded to a level below A by both S&P and Moody's must be sold from the portfolio.

# Schools Alliance for Workers Compensation Excess

Notes to Financial Statements

June 30, 2022 and 2021

## F. 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. SAWCX II manages its exposure to interest rate risk 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.

Information about the sensitivity of the fair values of SAWCX II cash equivalents and investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of SAWCX II investment by maturity:

Investment Type	2022			
	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Agency Securities	\$ 1,475,878	\$ 1,475,878	\$ -	\$ -
Corporate Bonds	2,275,406	-	978,634	1,296,772
Certificates of Deposit	3,564,438	1,366,250	918,043	1,280,145
Money market funds	1,348,259	1,348,259	-	-
State Investment Pool	1,727,490	1,727,490	-	-
<b>Total</b>	<b>\$ 10,391,471</b>	<b>\$ 5,917,877</b>	<b>\$ 1,896,677</b>	<b>\$ 2,576,917</b>

Investment Type	2021			
	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
Corporate Bonds	\$ 2,921,281	\$ 509,170	\$ 507,528	\$ 1,904,583
Certificates of Deposit	5,244,131	786,982	1,418,177	3,038,972
Money market funds	800,187	800,187	-	-
State Investment Pool	2,015,724	2,015,724	-	-
<b>Total</b>	<b>\$ 10,981,323</b>	<b>\$ 4,112,063</b>	<b>\$ 1,925,705</b>	<b>\$ 4,943,555</b>

## Schools Alliance for Workers Compensation Excess

Notes to Financial Statements

June 30, 2022 and 2021

### G. Credit Risk

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 the *California Government Code*, SAWCX II's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	2022					
	Fair Value	Minimum Legal Rating	Rating as of Year End			
			Aaa	Aa1 - Aa3	A1 - A3	Unrated
U.S. Agency Securities	\$ 1,475,878	**	\$ 1,475,878	\$ -	\$ -	\$ -
Corporate Bonds	2,275,406	A	804,485	-	1,470,921	-
Certificates of Deposit	3,564,438	*	-	-	-	3,564,438
Money market funds	1,348,259	*	-	-	-	1,348,259
State Investment Pool	1,727,490	*	-	-	-	1,727,490
<b>Total</b>	<b>\$ 10,391,471</b>		<b>\$ 2,280,363</b>	<b>\$ -</b>	<b>\$ 1,470,921</b>	<b>\$ 6,640,187</b>

Investment Type	2021					
	Fair Value	Minimum Legal Rating	Rating as of Year End			
			Aaa	Aa1 - Aa3	A1 - A3	Unrated
Corporate Bonds	\$ 2,921,281	A	\$ 866,208	\$ -	\$ 2,055,073	\$ -
Certificates of Deposit	5,244,131	*	-	-	-	5,244,131
Money market funds	800,187	*	-	-	-	800,187
State Investment Pool	2,015,724	*	-	-	-	2,015,724
<b>Total</b>	<b>\$ 10,981,323</b>		<b>\$ 866,208</b>	<b>\$ -</b>	<b>\$ 2,055,073</b>	<b>\$ 8,060,042</b>

\* Not required to be rated



**H. Concentration of Credit Risk**

The investment policy of SAWCX II contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. At June 30, 2022 and 2021, investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	2022	2021
U.S. Treasury Notes	U.S. Agency Securities	\$ 1,475,878	\$ -

**I. Custodial Credit Risk**

**Deposits (Banks)**

This is the risk that in the event of a bank failure, SAWCX II deposits may not be returned to it. SAWCX II does not have a policy for custodial credit risk for deposits. However, 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 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2022 and 2021, SAWCX II's bank balance of \$68,791 and \$194,523 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of SAWCX II.

**J. Fair Value Measurements**

SAWCX II categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets that SAWCX II has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

# Schools Alliance for Workers Compensation Excess

Notes to Financial Statements

June 30, 2022 and 2021

- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.
  
- Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include SAWCX II's own data. SAWCX II should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to SAWCX II are not available to other market participants.

SAWCX II's fair value measurements are as follows at June 30, 2022:

Investment Type	Fair Value	Fair Value Measurements Using Level 2 Inputs
U.S. Agency Securities	\$ 1,475,878	\$ 1,475,878
Corporate bonds	2,275,406	2,275,406
Money market funds	1,348,259	1,348,259
Certificates of deposit	3,564,438	3,564,438
Total	\$ 8,663,981	\$ 8,663,981

SAWCX II's fair value measurements are as follows at June 30, 2021:

All assets have been valued using a market approach, with quoted market prices.

Cash/Investment Type	Fair Value	Fair Value Measurements Using Level 2 Inputs
Corporate bonds	\$ 2,921,281	\$ 2,921,281
Money market funds	800,187	800,187
Certificates of deposit	5,244,131	5,244,131
Total	\$ 8,965,599	\$ 8,965,599

## Schools Alliance for Workers Compensation Excess

Notes to Financial Statements

June 30, 2022 and 2021

### Note 3 - Unpaid Claims Liabilities

SAWCX II establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses. The following represents changes in liabilities for SAWCX II during the fiscal years ended June 30, 2022 and 2021:

	June 30,	
	2022	2021
Claims liabilities at beginning of fiscal year	\$ 5,302,502	\$ 6,792,486
Incurred expenses related to:		
Decrease in provision for insured events of prior fiscal years	(1,033,386)	(1,096,961)
Payments related to:		
Insured events of prior fiscal years	(103,038)	(393,023)
Claims liabilities at end of fiscal year	\$ 4,166,078	\$ 5,302,502

As a result of changes in estimates of incurred events in prior years, the provision for included expense reserves decreased by approximately \$1,033,386 and \$1,096,961 for year ending June 30, 2022 and 2021, respectively. The change in incurred expenses was attributed to new information regarding claims development that became known during subsequent periods.

The component units of the unpaid claims and claim adjustment expenses as of June 30, 2022 and 2021, were as follows:

	2022	2021
Claims liability	\$ 4,166,078	\$ 5,302,502
Unallocated loss adjustment expenses	390,453	422,760
	4,556,531	5,725,262
Current portion	(716,190)	(862,000)
Noncurrent portion	\$ 3,840,341	\$ 4,863,262

Claims liabilities are discounted at 3.0% and 1.0% as of June 30, 2022 and 2021, respectively.



Independent Auditor's Reports  
June 30, 2022

# Schools Alliance for Workers Compensation Excess



**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***

The Board of Directors  
Schools Alliance for Workers Compensation Excess  
Torrance, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Schools Alliance for Workers Compensation Excess (SAWCX II), which comprise the statement of net position as of June 30, 2022, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Schools Alliance for Workers Compensation Excess'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 Schools Alliance for Workers Compensation Excess's internal control. Accordingly, we do not express an opinion on the effectiveness of Schools Alliance for Workers Compensation Excess's internal control.

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

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

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Schools Alliance for Workers Compensation Excess'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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Rancho Cucamonga, California  
November 18, 2022