

**MONTEREY BAY AREA
SELF INSURANCE AUTHORITY**

FINANCIAL STATEMENTS

June 30, 2023 and 2022

MONTEREY BAY AREA SELF INSURANCE AUTHORITY

FINANCIAL STATEMENTS

June 30, 2023 and 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
STATEMENTS OF NET POSITION	9
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION.....	10
STATEMENTS OF CASH FLOWS.....	11
NOTES TO FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTARY INFORMATION:	
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT	21
CLAIMS DEVELOPMENT INFORMATION.....	23
SUPPLEMENTARY INFORMATION:	
COMBINING STATEMENTS OF NET POSITION	26
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET POSITION	28
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 <i>GOVERNMENT AUDITING STANDARDS</i>	30

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinion***

We have audited the financial statements of the Monterey Bay Area Self Insurance Authority, as of and for the years ended June 30, 2023 and 2022, 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, 2023 and 2022, 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 Monterey Bay Area Self Insurance Authority, 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.

(Continued)

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 21 through 22, and the Claims Development Information on pages 23 through 25, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by 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.

(Continued)

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 26 through 29 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 9, 2023 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 9, 2023

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

This section of *Monterey Bay Area Self Insurance Authority's* annual financial report is Management's Discussion and Analysis (MD&A) of the Authority's financial performance during the year ended June 30, 2023 and prior year ending 2022. Since the 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, 2023 ended at \$(147,040) compared to \$229,503 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 \$(1,869,547), \$(37,056), \$(1,482,228), \$(1,877,265), \$(868,226), \$(1,224,941), and \$(3,113,719), for 2021, 2020, 2019, 2018, 2017, 2016, and 2015, respectively.
- Total operating expenses of all of the Authority's programs were \$14,819,301 for 2023, which increased \$3,447,287 from 2022. The prior years' operating expenses were \$11,708,534, \$7,863,604, \$7,908,684, \$8,535,390, \$7,655,540, \$4,304,545, and \$8,366,326, for 2021, 2020, 2019, 2018, 2017, 2016, and 2015, respectively. The current year increase was due to an increase in claims payments, insurance premiums and claims administration expenses over the prior term.
- MBASIA's financial state has taken a step back into a negative net position since the last audit period, primarily due to a significant increase in claim expenses, as MBASIA raises revenue to prepare for continued high claims activity. 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, 2023 AND 2022

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, 2023 AND 2022

COMPARATIVE ANALYSIS

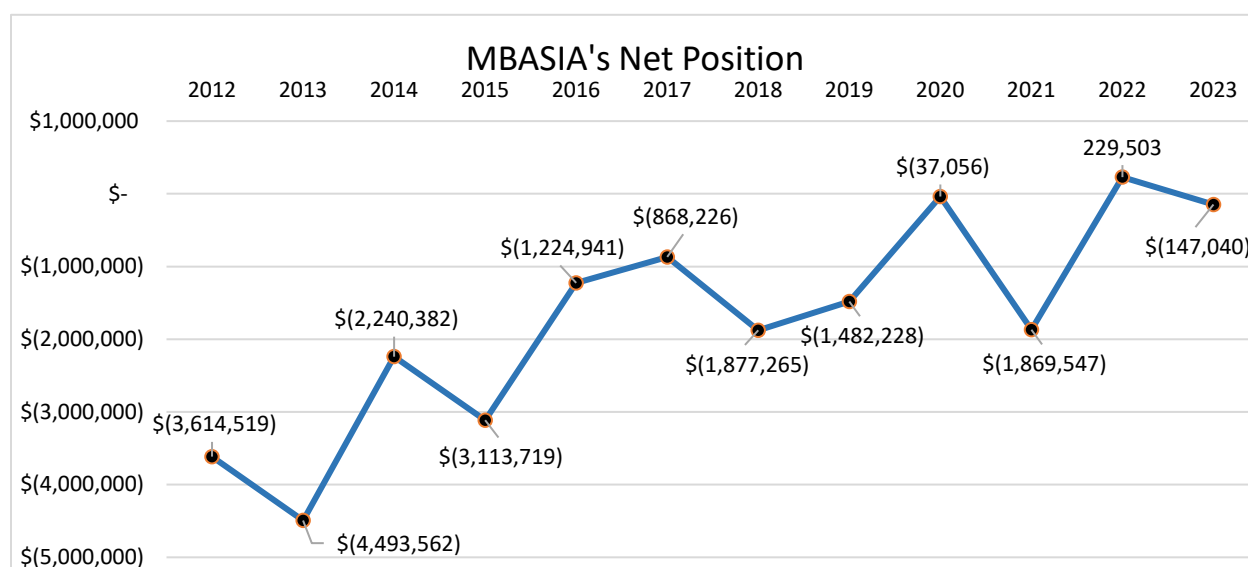
Statements of Net Position

A comparative summary of the Authority's Statements of Net Position as of June 30, 2023, 2022 and 2021, which generally reflects its financial condition is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Current assets	\$ 13,232,694	\$ 13,303,185	\$ 20,119,681
Long-term assets	<u>8,475,727</u>	<u>7,310,803</u>	<u>-</u>
Total assets	<u>21,708,421</u>	<u>20,613,988</u>	<u>20,119,681</u>
Current liabilities	4,565,025	4,472,316	4,144,592
Long-term liabilities	<u>17,290,436</u>	<u>15,912,169</u>	<u>17,844,636</u>
Total liabilities	<u>21,855,461</u>	<u>20,384,485</u>	<u>21,989,228</u>
Net position -			
Unrestricted	<u>(147,040)</u>	<u>229,503</u>	<u>(1,869,547)</u>
Total net position	<u>\$ (147,040)</u>	<u>\$ 229,503</u>	<u>\$ (1,869,547)</u>

Major Factors Affecting the Statements of Net Position

Net position increased (decreased) by \$(376,543), \$2,099,050 and \$(1,832,491) during the years ending June 30, 2023, 2022 and 2021, respectively. The results are driven by the increase in unpaid claims and claims adjustment expenses due to inflationary pressures claim resolutions. Expenses such as insurance premiums increased because of a hard insurance market, and claims administration expenses also increased due to increased activity and a contract fee increase.



MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

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, 2023, 2022, and 2021, which generally reflects its results of operations, is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenue:			
Contributions from members	\$ 12,650,067	\$ 11,062,597	\$ 9,084,247
Excess insurance recovery and reimbursements	1,541,444	2,342,362	690,378
Interest income	<u>251,247</u>	<u>66,105</u>	<u>101,418</u>
Total revenue	<u>14,442,758</u>	<u>13,471,064</u>	<u>9,876,043</u>
Expenses:			
Provision for claims and claims Adjustment expense	8,459,490	5,891,452	8,055,594
Insurance expense	4,949,869	4,252,267	2,795,769
Claims administration	367,822	291,613	285,500
Contract risk management services	298,500	292,000	301,901
Other risk management expenses	56,197	74,028	51,000
General and administrative	<u>687,423</u>	<u>570,654</u>	<u>218,770</u>
Total expenses	<u>14,819,301</u>	<u>11,372,014</u>	<u>11,708,534</u>
Change in net position	<u>\$ (376,543)</u>	<u>\$ 2,099,050</u>	<u>\$ (1,832,491)</u>

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

The main reason for a decrease in net position is the significant increase in claims and insurance expenses. MBASIA continues to increase funding to improve the financial position of the Authority.

For the Workers' Compensation program, MBASIA took action to increase the confidence level to 75% from 70%. Previously, the confidence level was 70% since 2018, while in 2017 the confidence level was 65%, and in 2016 the confidence level was 60%.

For the Liability program, for FY 22/23 the confidence level was increased to 80% from 70%, and the Board increased the deductible from \$10,000 to \$25,000. Prior to that, MBASIA funded at the 70% confidence level, since 2017. In 2016 and prior, the confidence level was between 65% and 70%.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

Reserves for Claims and Allocated Claims Adjustment Expenses

Reserves for Claims and Allocated Claims Adjustment Expenses for the years ended June 30, 2023, 2022, and 2021 are calculated as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Claim and claim adjustment expense reserves, beginning of year	\$ 20,360,169	\$ 21,894,636	\$ 19,105,578
Incurred claim and claim adjustment expenses, current and prior years	8,459,490	5,891,452	8,055,594
Payments, current and prior years	<u>7,006,223</u>	<u>7,425,919</u>	<u>5,266,536</u>
Claim and claim adjustment expense reserves, end of year	<u>\$ 21,813,436</u>	<u>\$ 20,360,169</u>	<u>\$ 21,894,636</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, Mali LaGoe, City of Scotts Valley, 1 Civic Center Drive, CA 95066.

FINANCIAL STATEMENTS

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 STATEMENTS OF NET POSITION
 June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 10,678,180	\$ 12,589,967
Investments maturing within one year (Note 2)	1,517,695	617,874
Receivables:		
Member agencies	901,542	32,730
Interest	123,926	52,123
Prepaid expenses	<u>11,351</u>	<u>10,491</u>
Total current assets	<u>13,232,694</u>	<u>13,303,185</u>
Investments, less portion maturing in one year (Note 2)	<u>8,475,727</u>	<u>7,310,803</u>
Total assets	<u>\$ 21,708,421</u>	<u>\$ 20,613,988</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 42,025	\$ 24,316
Current portion of unpaid claims and claim adjustment expenses (Note 3)	<u>4,523,000</u>	<u>4,448,000</u>
Total current liabilities	4,565,025	4,472,316
Unpaid claims and claim adjustment expenses (Note 3)	<u>17,290,436</u>	<u>15,912,169</u>
Total liabilities	<u>21,855,461</u>	<u>20,384,485</u>
NET POSITION		
Total net position - unrestricted	<u>\$ (147,040)</u>	<u>\$ 229,503</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating revenues:		
Member contributions	\$ 12,650,067	\$ 11,062,597
Excess insurance recovery reimbursements	<u>1,541,444</u>	<u>2,342,362</u>
 Total operating revenues	 14,191,511	 13,404,959
Operating expenses:		
Provision for claims and claim adjustment expenses (Note 3)	8,459,490	5,891,452
Insurance premiums	4,949,869	4,252,267
Claims administration	367,822	291,613
Contract risk management services	298,500	292,000
Other risk management expenses	56,197	74,028
General and administrative	<u>687,423</u>	<u>570,654</u>
 Total operating expenses	 <u>14,819,301</u>	 <u>11,372,014</u>
 Operating (loss) income	 (627,790)	 2,032,945
Non-operating income:		
Investment income	<u>251,247</u>	<u>66,105</u>
 Change in net position	 (376,543)	 2,099,050
 Net position, beginning of year	 <u>229,503</u>	 <u>(1,869,547)</u>
 Net position, end of year	 <u><u>\$ (147,040)</u></u>	 <u><u>\$ 229,503</u></u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Cash received from members and others	\$ 13,322,699	\$ 13,493,548
Cash paid for claims	(7,006,223)	(7,425,919)
Cash paid for insurance	(4,949,869)	(4,252,267)
Cash paid to suppliers	<u>(1,393,093)</u>	<u>(1,248,181)</u>
Net cash (used) provided by operating activities	<u>(26,486)</u>	<u>567,181</u>
Cash flows from investing activities:		
Interest received	179,444	30,171
Investment purchases	<u>(2,064,745)</u>	<u>(7,928,677)</u>
Net cash used by investing activities	<u>(1,885,301)</u>	<u>(7,898,506)</u>
Net change in cash	(1,911,787)	(7,331,325)
Cash and cash equivalents, beginning of year	<u>12,589,967</u>	<u>19,921,292</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,678,180</u></u>	<u><u>\$ 12,589,967</u></u>
Reconciliation of operating (loss) income to net cash (used) provided by operating activities:		
Operating (loss) income	\$ (627,790)	\$ 2,032,945
Adjustments to reconcile operating (loss) income to net cash (used) provided by operating activities:		
(Increase) decrease in:		
Receivables from member agencies	(868,812)	88,589
Prepaid expenses	(860)	50,390
Increase (decrease) in:		
Accounts payable	17,709	(70,276)
Unpaid claims and claim adjustment expenses	<u>1,453,267</u>	<u>(1,534,467)</u>
Net cash (used) provided by operating activities	<u><u>\$ (26,486)</u></u>	<u><u>\$ 567,181</u></u>

See accompanying notes to basic financial statements.

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 and 2022 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, 2023 and 2022

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, 2023 and 2022, 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 9, 2023, 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, 2023 and 2022

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments as of June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents:		
Cash in bank	\$ 850,887	\$ 575,854
Money market accounts	24,276	51,124
Cash in Local Agency Investment Fund	<u>9,803,017</u>	<u>11,962,989</u>
Total cash and cash equivalents	10,678,180	12,589,967
Investments	<u>9,993,422</u>	<u>7,928,677</u>
Total cash, cash equivalents and investments	<u>\$ 20,671,602</u>	<u>\$ 20,518,644</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 Local 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, 2023 and 2022

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.

As of June 30, 2023:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</u>
Federal agency securities	\$ 671,721	1.37
Asset-backed securities	868,827	3.19
U.S. corporate notes	2,542,659	3.06
U.S. Treasury notes	5,126,340	2.51
Commercial paper	199,632	0.04
Commercial mortgage obligation	479,551	3.53
Municipal bonds	26,447	3.71
Supranationals	<u>78,245</u>	1.01
 Total	 <u>\$ 9,993,422</u>	

As of June 30, 2022:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (In Years)</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>	

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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

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, 2023 and 2022, 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.

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

<u>Description</u>	<u>2023</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Federal agency securities	\$ 671,721	\$ -	\$ 671,721	\$ -
Asset-backed securities	868,827	-	868,827	-
U.S. corporate notes	2,542,659	-	2,542,659	-
U.S. Treasury notes	5,126,340	-	5,126,340	-
Commercial paper	199,632	-	199,632	-
Commercial mortgage obligation	479,551	-	479,551	-
Municipal bonds	26,447	-	26,447	-
Supranationals	<u>78,245</u>	<u>-</u>	<u>78,245</u>	<u>-</u>
Total	<u>\$ 9,993,422</u>	<u>\$ -</u>	<u>\$ 9,993,422</u>	<u>\$ -</u>
<u>Description</u>	<u>2022</u>			
	<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	<u>80,183</u>	<u>-</u>	<u>80,183</u>	<u>-</u>
Total	<u>\$ 7,928,677</u>	<u>\$ -</u>	<u>\$ 7,928,677</u>	<u>\$ -</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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

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, 2023 and 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>	<u>Ratings as of June 30, 2023</u>		
			<u>AAA</u>	<u>AA</u>	<u>A</u>
Federal agency securities	\$ 671,721	\$ -	\$ -	\$ 671,721	\$ -
Asset-backed securities	868,827	-	868,827	-	-
U.S. corporate notes	2,542,659	-	-	380,467	2,162,192
U.S. Treasury notes	5,126,340	5,126,340	-	-	-
Commercial paper	199,632	-	-	-	199,632
Commercial mortgage obligation	479,551	-	479,551	-	-
Municipal bonds	26,447	-	26,447	-	-
Supranationals	78,245	-	78,245	-	-
Total	\$ 9,993,422	\$ 5,126,340	\$ 1,453,070	\$ 1,052,188	\$ 2,361,824

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Ratings as of June 30, 2022</u>		
			<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	-	-
Total	\$ 7,928,677	\$ 5,188,719	\$ 709,029	\$ 948,123	\$ 1,082,806

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2023 and 2022

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, 2023, the carrying amount of the Authority's accounts was \$850,887 and the bank balances were \$1,352,950. At June 30, 2022, the carrying amount of the Authority's accounts was \$575,854 and the bank balances were \$635,714.

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, 2023, this fund was yielding approximate interest rate of 3.15% 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, 2023 and 2022, the Authority had the following investments that represent more than five percent of the Authority's net investments:

	<u>2023</u>	<u>2022</u>
U.S. Treasury	51.3%	65.4%
FHLB	4.5%	5.1%

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 20,360,169	\$ 21,894,636
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	6,063,823	6,070,793
Change in provision for covered events of prior fiscal years	<u>2,395,667</u>	<u>(179,341)</u>
Total incurred claims and claim adjustment expenses	<u>8,459,490</u>	<u>5,891,452</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	671,818	568,238
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>6,334,405</u>	<u>6,857,681</u>
Total payments	<u>7,006,223</u>	<u>7,425,919</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 21,813,436</u>	<u>\$ 20,360,169</u>

The components of the unpaid claims and claim adjustment expenses for the Authority as of June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Claim reserves	\$ 9,709,000	\$ 9,310,000
Claims incurred but not reported (IBNR)	10,041,000	9,236,000
Unallocated loss adjustment expenses (ULAE)	<u>2,063,436</u>	<u>1,814,169</u>
	21,813,436	20,360,169
Current portion	<u>(4,523,000)</u>	<u>(4,448,000)</u>
	<u>\$ 17,290,436</u>	<u>\$ 15,912,169</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2023 and 2022

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 increased by \$2,395,667 during the year ended June 30, 2023. These were primarily the result of a combination of favorable and unfavorable development miscellaneous policy years for the Authority's workers' compensation and liability coverages.

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.

These liabilities are reported at their present value using an expected future investment yield assumption of 1 percent for June 30, 2023 and 2022. The undiscounted liabilities are \$25,007,378 and \$21,693,486 at June 30, 2023 and 2022, respectively. The current portion of claim liabilities is estimated based on claims payment history.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
WORKERS' COMPENSATION PROGRAM
Years Ended June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ 15,416,233	\$ 16,649,269
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	3,918,526	4,102,694
Change in provision for covered events of prior fiscal years	<u>635,944</u>	<u>371,091</u>
Total incurred claims and claim adjustment expenses	<u>4,554,470</u>	<u>4,473,785</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	653,801	544,312
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>3,856,780</u>	<u>5,162,509</u>
Total payments	<u>4,510,581</u>	<u>5,706,821</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 15,460,122</u>	<u>\$ 15,416,233</u>

The components of the unpaid claims and claim adjustment expenses for the Workers' Compensation Program as of June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Claim reserves	\$ 6,319,000	\$ 6,885,000
Claims incurred but not reported (IBNR)	7,423,000	6,993,000
Unallocated loss adjustment expenses (ULAE)	<u>1,718,122</u>	<u>1,538,233</u>
	15,460,122	15,416,233
Current portion	<u>(2,481,000)</u>	<u>(2,564,000)</u>
	<u>\$ 12,979,122</u>	<u>\$ 12,852,233</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
LIABILITY PROGRAM
Years Ended June 30, 2023 and 2022

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

	<u>2023</u>	<u>2022</u>
Unpaid claims and claim adjustment expenses at beginning of fiscal year	\$ <u>4,943,936</u>	\$ <u>5,245,367</u>
Incurred claims and claim adjustment expenses:		
Provision for covered events of current fiscal year	2,145,297	1,968,099
Change in provision for covered events of prior fiscal years	<u>1,759,723</u>	<u>(550,432)</u>
Total incurred claims and claim adjustment expenses	<u>3,905,020</u>	<u>1,417,667</u>
Payments:		
Claims and claim adjustment expenses attributable to covered events of current fiscal year	18,017	23,926
Claims and claim adjustment expenses attributable to covered events of prior fiscal years	<u>2,477,625</u>	<u>1,695,172</u>
Total payments	<u>2,495,642</u>	<u>1,719,098</u>
Unpaid claims and claim adjustment expenses at end of fiscal year	<u>\$ 6,353,314</u>	<u>\$ 4,943,936</u>

The components of the unpaid claims and claim adjustment expenses for the Liability Program as of June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Claim reserves	\$ 3,390,000	\$ 2,425,000
Claims incurred but not reported (IBNR)	2,618,000	2,243,000
Unallocated loss adjustment expenses (ULAE)	<u>345,314</u>	<u>275,936</u>
	6,353,314	4,943,936
Current portion	<u>(2,042,000)</u>	<u>(1,884,000)</u>
	<u>\$ 4,311,314</u>	<u>\$ 3,059,936</u>

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
CLAIMS DEVELOPMENT INFORMATION
For the Year Ended June 30, 2023

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, 2023

	<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>	<u>2023</u>
1. Premiums and investment revenue										
Earned	\$ 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	\$ 5,962,529
Ceded	<u>(544,284)</u>	<u>(372,833)</u>	<u>(525,152)</u>	<u>(637,280)</u>	<u>(649,869)</u>	<u>(643,874)</u>	<u>(851,921)</u>	<u>(1,009,992)</u>	<u>(1,089,082)</u>	<u>(1,019,934)</u>
Net earned	<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>	<u>\$ 4,942,595</u>
2. Unallocated expenses	\$ 662,243	\$ 598,367	\$ 696,780	\$ 645,975	\$ 790,378	\$ 621,678	\$ 880,032	\$ 429,928	\$ 356,512	\$ 367,062
3. Estimated claims and expenses, end of policy year incurred	\$ 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	\$ 3,918,526
4. Paid cumulative as of:										
End of policy year	\$ 441,674	\$ 179,703	\$ 251,220	\$ 501,366	\$ 443,725	\$ 334,026	\$ 392,631	\$ 442,973	\$ 544,312	\$ 653,801
One year later	\$ 1,210,068	\$ 491,348	\$ 710,688	\$ 764,603	\$ 695,338	\$ 885,827	\$ 945,905	\$ 1,334,419	\$ 1,672,664	
Two years later	\$ 1,460,003	\$ 717,488	\$ 1,273,884	\$ 872,442	\$ 1,055,486	\$ 1,566,810	\$ 1,718,668	\$ 2,170,580		
Three years later	\$ 2,018,491	\$ 1,062,839	\$ 1,979,050	\$ 1,071,522	\$ 1,336,496	\$ 2,231,014	\$ 2,052,626			
Four years later	\$ 2,636,263	\$ 1,261,604	\$ 2,264,228	\$ 1,274,583	\$ 1,403,832	\$ 2,463,682				
Five years later	\$ 2,833,396	\$ 1,599,052	\$ 2,422,380	\$ 1,361,108	\$ 1,531,316					
Six years later	\$ 2,934,417	\$ 1,780,713	\$ 2,667,100	\$ 1,610,388						
Seven years later	\$ 3,082,281	\$ 2,019,109	\$ 2,848,045							
Eight years later	\$ 3,077,109	\$ 2,086,765								
Nine years later	\$ 3,043,509									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated Incurred claims and expenses										
End of policy year	\$ 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	\$ 3,918,526
One year later	\$ 2,767,084	\$ 1,584,988	\$ 1,915,756	\$ 2,392,458	\$ 2,477,968	\$ 2,972,726	\$ 3,296,336	\$ 4,511,750	\$ 4,104,055	
Two years later	\$ 2,574,710	\$ 1,603,926	\$ 2,495,279	\$ 1,031,518		\$ 3,669,766	\$ 3,423,156	\$ 4,203,918		
Three years later	\$ 3,127,699	\$ 1,841,119	\$ 2,901,284	\$ 2,578,390	\$ 2,356,131	\$ 3,599,835	\$ 3,792,560			
Four years later	\$ 3,295,882	\$ 1,970,845	\$ 3,337,714	\$ 2,398,564	\$ 2,029,133	\$ 3,605,140				
Five years later	\$ 3,444,360	\$ 2,298,567	\$ 3,157,171	\$ 2,074,194	\$ 2,172,866					
Six years later	\$ 3,576,241	\$ 2,313,628	\$ 3,411,082	\$ 2,226,963						
Seven years later	\$ 3,348,463	\$ 2,552,025	\$ 3,556,068							
Eight years later	\$ 3,267,162	\$ 2,609,464								
Nine years later	\$ 3,250,216									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	<u>\$ 766,786</u>	<u>\$ 140,947</u>	<u>\$ 1,612,310</u>	<u>\$ (446,690)</u>	<u>\$ (640,947)</u>	<u>\$ 964,499</u>	<u>\$ 333,895</u>	<u>\$ (188,501)</u>	<u>\$ 1,361</u>	<u>\$ -</u>

(Continued)

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
LIABILITY PROGRAM - CLAIMS DEVELOPMENT INFORMATION
June 30, 2023

	<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>	<u>2023</u>
1. Premiums and investment revenue										
Earned	\$ 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	\$ 5,000,222
Ceded	<u>(321,778)</u>	<u>(489,467)</u>	<u>(521,318)</u>	<u>(543,606)</u>	<u>(617,060)</u>	<u>(642,747)</u>	<u>(693,638)</u>	<u>(917,958)</u>	<u>(1,554,360)</u>	<u>(1,991,223)</u>
Net earned	<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>	<u>\$ 3,008,999</u>
2. Unallocated expenses	\$ 98,496	\$ 207,904	\$ 248,990	\$ 270,492	\$ 349,036	\$ 347,305	\$ 285,650	\$ 78,899	\$ 106,090	\$ 106,758
3. Estimated claims and expenses, end of policy year incurred	\$ 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	\$ 2,145,297
4. Net paid (cumulative) as of:										
End of policy year	\$ 30,827	\$ 114,978	\$ 4,901	\$ 27,197	\$ 60,233	\$ 54,019	\$ 16,780	\$ 235,542	\$ 23,926	\$ 18,017
One year later	\$ 833,982	\$ 234,289	\$ 494,149	\$ 843,923	\$ 374,898	\$ 155,238	\$ 601,043	\$ 655,619	\$ 202,074	
Two years later	\$ 1,246,772	\$ 579,732	\$ 771,809	\$ 1,627,511	\$ 1,002,234	\$ 207,202	\$ 923,176	\$ 560,744		
Three years later	\$ 1,574,269	\$ 483,920	\$ 985,847	\$ 1,458,894	\$ 1,297,260	\$ 377,863	\$ 1,234,919			
Four years later	\$ 1,578,540	\$ 483,920	\$ 1,008,939	\$ 1,559,194	\$ 2,116,163	\$ 474,908				
Five years later	\$ 1,567,471	\$ 483,920	\$ 1,066,145	\$ 2,235,147	\$ 2,360,428					
Six years later	\$ 1,566,555	\$ 484,708	\$ 1,386,294	\$ 2,861,284						
Seven years later	\$ 1,597,495	\$ 484,373	\$ 1,385,944							
Eight years later	\$ 1,597,495	\$ 484,373								
Nine years later	\$ 1,597,495									
5. Re-estimated ceded claims and expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Re-estimated Incurred claims and expenses										
End of policy year	\$ 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	\$ 2,145,297
One year later	\$ 1,936,531	\$ 1,010,305	\$ 1,541,037	\$ 2,141,244	\$ 2,101,918	\$ 917,399	\$ 2,157,280	\$ 2,259,352	\$ 1,838,420	
Two years later	\$ 1,885,454	\$ 772,354	\$ 1,565,176	\$ 2,641,745	\$ 1,646,413	\$ 1,215,889	\$ 1,624,553	\$ 1,285,074		
Three years later	\$ 1,673,247	\$ 483,920	\$ 1,062,460	\$ 1,670,576	\$ 2,056,186	\$ 790,217	\$ 1,834,997			
Four years later	\$ 1,594,770	\$ 483,920	\$ 1,060,000	\$ 1,763,181	\$ 2,351,828	\$ 1,273,027				
Five years later	\$ 1,567,471	\$ 483,920	\$ 1,101,545	\$ 2,275,899	\$ 2,587,279					
Six years later	\$ 1,566,555	\$ 485,835	\$ 1,386,294	\$ 2,862,974						
Seven years later	\$ 1,597,495	\$ 484,373	\$ 1,385,944							
Eight years later	\$ 1,597,495	\$ 484,373								
Nine years later	\$ 1,597,495									
7. Increase (decrease) in estimated incurred claims and expenses from end of policy year	<u>\$ 879,868</u>	<u>\$ (605,418)</u>	<u>\$ 288,028</u>	<u>\$ 1,632,509</u>	<u>\$ 1,100,372</u>	<u>\$ (324,152)</u>	<u>\$ 213,618</u>	<u>\$ (425,437)</u>	<u>\$ (129,679)</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF NET POSITION
 June 30, 2023

ASSETS	Worker's <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Current assets:				
Cash and cash equivalents	\$ 7,485,309	\$ 3,192,871	\$ -	\$ 10,678,180
Investments maturing within one year (Note 2)	1,064,244	453,451	-	1,517,695
Receivables:				
Member agencies	583,735	317,807	-	901,542
Interest	86,900	37,026	-	123,926
Prepaid expenses	(4,449)	15,800	-	11,351
Due to/due from other funds	<u>(151,144)</u>	<u>177,665</u>	<u>(26,521)</u>	<u>-</u>
 Total current assets	 <u>9,064,595</u>	 <u>4,194,620</u>	 <u>(26,521)</u>	 <u>13,232,694</u>
 Investments, less portion maturing in one year (Note 2)	 <u>5,943,385</u>	 <u>2,532,342</u>	 <u>-</u>	 <u>8,475,727</u>
 Total assets	 <u>15,007,980</u>	 <u>6,726,962</u>	 <u>(26,521)</u>	 <u>21,708,421</u>
 LIABILITIES				
Current liabilities:				
Accounts payable	22,709	16,504	2,812	42,025
Current portion of unpaid claims and claim adjustment expenses	<u>2,481,000</u>	<u>2,042,000</u>	<u>-</u>	<u>4,523,000</u>
 Total current liabilities	 2,503,709	 2,058,504	 2,812	 4,565,025
 Unpaid claims and claim adjustment expenses	 <u>12,979,122</u>	 <u>4,311,314</u>	 <u>-</u>	 <u>17,290,436</u>
 Total liabilities	 <u>15,482,831</u>	 <u>6,369,818</u>	 <u>2,812</u>	 <u>21,855,461</u>
 Total net position - unrestricted	 <u>\$ (474,851)</u>	 <u>\$ 357,144</u>	 <u>\$ (29,333)</u>	 <u>\$ (147,040)</u>

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>

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
 COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGE IN NET POSITION
 Year Ended June 30, 2023

	Worker's <u>Compensation</u>	<u>Liability</u>	<u>Property</u>	<u>Total</u>
Operating revenues:				
Member contributions	\$ 5,786,656	\$ 4,924,848	\$ 1,938,563	\$ 12,650,067
Excess insurance recovery reimbursements	<u>1,223,637</u>	<u>317,807</u>	<u>-</u>	<u>1,541,444</u>
 Total operating revenues	 <u>7,010,293</u>	 <u>5,242,655</u>	 <u>1,938,563</u>	 <u>14,191,511</u>
Operating expenses:				
Provision for claims and claim adjustment expenses	4,554,470	3,905,020	-	8,459,490
Insurance premiums	1,019,934	1,991,223	1,938,712	4,949,869
Claims administration	201,250	166,572	-	367,822
Contract risk management services	149,250	149,250	-	298,500
Other risk management expenses	-	56,197	-	56,197
General and administrative	<u>468,279</u>	<u>219,144</u>	<u>-</u>	<u>687,423</u>
 Total operating expenses	 <u>6,393,183</u>	 <u>6,487,406</u>	 <u>1,938,712</u>	 <u>14,819,301</u>
 Operating income (loss)	 <u>617,110</u>	 <u>(1,244,751)</u>	 <u>(149)</u>	 <u>(627,790)</u>
Non-operating income:				
Interest income	<u>175,873</u>	<u>75,374</u>	<u>-</u>	<u>251,247</u>
 Change in net position	 792,983	 (1,169,377)	 (149)	 (376,543)
 Net position, beginning of year	 \$ (1,270,610)	 \$ 1,529,296	 \$ (29,183)	 \$ 229,503
 Net position, end of year	 <u>\$ (477,627)</u>	 <u>\$ 359,919</u>	 <u>\$ (29,332)</u>	 <u>\$ (147,040)</u>

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

	Worker's Compensation	Liability	Property	Total
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	196,640	94,973	-	291,613
Contract risk management services	146,000	146,000	-	292,000
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	<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 position	1,400,806	697,636	608	2,099,050
Net position, beginning of year	\$ (2,671,416)	\$ 831,660	\$ (29,791)	\$ (1,869,547)
Net position, end of year	<u>\$ (1,270,610)</u>	<u>\$ 1,529,296</u>	<u>\$ (29,183)</u>	<u>\$ 229,503</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, 2023, 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 9, 2023.

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.

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 9, 2023