

SPECIAL DISTRICT REINSURANCE GROUP

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2022

SPECIAL DISTRICT REINSURANCE GROUP

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Chief Executive Officer, SDRMA

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Chief Financial Officer, SDRMA

SPECIAL DISTRICT REINSURANCE GROUP

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James Marta & Company LLP

Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Special District Risk Management Authority
Sacramento, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Net Position of Special District Reinsurance Group (the Captive) as of and for the fiscal year ended June 30, 2022, and the related Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows for the fiscal year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the Special District Reinsurance Group, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Claims Development Information, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing

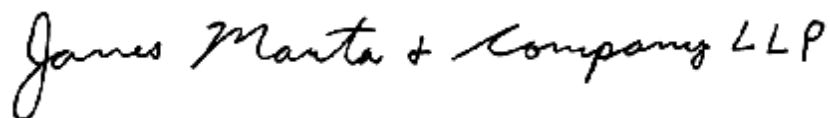
standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Special District Reinsurance Group's basic financial statements. The Graphical Summary of Claims is presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Graphical Summary of Claims is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2022 on our consideration of Special District Reinsurance Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Special District Reinsurance Group 's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
November 1, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

SPECIAL DISTRICT REINSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

As management of Special District Reinsurance Group (SDRG), we offer readers of SDRG's financial statements this narrative overview and analysis of the financial activities of SDRG for the fiscal year ended June 30, 2022.

SDRG, a component of Special District Risk Management Authority (SDRMA), is a captive insurance company established July 1, 2021. As a part of SDRMA, SDRG's assets, liabilities, revenues, expenses and changes in net position are included in the consolidated financial statements of SDRMA. SDRG is managed by SDRMA's management and governed by its Board of Directors and is regulated by the State of Utah Insurance Department.

Overview of the Financial Statements

The financial statements provide users information about SDRG, in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and have been used when filing the Annual Statement filed with the State of Utah Insurance Department. Financial statements include the Statement of Net Position, which provides information on SDRG's assets and liabilities, with the difference reported as net position; the Statement of Revenues, Expenses and Changes in Net Position, which provides information showing total revenue and expense and how SDRG's net position changed during the year; the Statement of Cash Flows presents information about the cash receipts and cash payments during the year; and the Notes to the Financial Statements, which provide additional information that are essential to a full understanding of the of the financial statements.

Insurance Activity

Beginning July 1, 2021, SDRG began providing coverage for SDRMA's \$750,000 Self-Insured Retention for the Workers' Compensation Program. At this time, SDRG only covers claims from July 1, 2021 forward while SDRMA continues to cover claims prior to July 1, 2021.

Financial Highlights

SDRG's liabilities exceeded assets at the end of fiscal year 2021-22 by \$1,725,604, resulting in a 20% decrease to Net Position. The following shows SDRG's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2022.

SDRG started the fiscal year with a net position of \$3.8 million and ended with a net position of \$7.1 million.

The assets of SDRG were all cash or investments at June 30, 2022. Cash is primarily held in the investment account with The Bank of New York Mellon. The basic objectives of this investment account are to invest assets of SDRG in a manner consistent with the fiduciary standards and to achieve a long-term level of return commensurate with contemporary economic conditions and equal to or exceeding an average annual target of 5% over a 10-year period. SDRG's investment objectives are based on long-term investments of ten years or longer.

The liabilities of SDRG consisted primarily of the contributed capital by SDRMA with the rest being reserves for Reported Losses and Incurred But Not Reported (IBNR) as of June 30, 2022.

SPECIAL DISTRICT REINSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

STATEMENT OF NET POSITION

	<u>June 30, 2022</u>
Assets	
Current and Other Assets	\$ 16,877,125
Capital Assets	<u>-</u>
Total Assets	<u>16,877,125</u>
Liabilities	
Accounts Payable & Other Liabilities	<u>9,769,729</u>
Total Liabilities	<u>9,769,729</u>
Net Position	
Contributed Capital	8,833,000
Unrestricted	<u>-1,725,604</u>
Total Net Position	<u>\$ 7,107,396</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>June 30, 2022</u>
Operating Revenues	
Members' contribution	\$ 11,409,000
Total Operating Revenues	<u>11,409,000</u>
Operating Expenses	
Claims expense	10,520,000
General and administrative	<u>111,170</u>
Total Operating Expenses	<u>10,631,170</u>
Operating Income (Loss)	<u>777,830</u>
Nonoperating Revenues and Expenses	
Investment income	<u>(2,503,434)</u>
Total Nonoperating Revenues and Expenses	<u>(2,503,434)</u>
Change in Net Position	(1,725,604)
Beginning Net Position	3,833,000
Paid In Capital	<u>5,000,000</u>
Ending Net Position	<u>\$ 7,107,396</u>

SDRG's operating revenues were \$11.4 million, expenses were \$10.6 million, leaving an operating income of nearly \$800,000. Due to the nature of the investment market during 2021-22, total investment losses were \$2.5 million, leaving a change to net position of -\$1.7 million.

SPECIAL DISTRICT REINSURANCE GROUP
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022

Description of Facts or Conditions that are Expected to have a Significant Effect on the Financial
Position or Results of Operations

California Economic Condition and Outlook

The state's economy during 2022 is recovering from the COVID-19 pandemic recession that started in 2020. However, the impending recession is threatening to slow down California in 2023. With continued product shortages, higher costs for energy and food, labor and capital resources are being pushed to capacity. New real estate developments were interrupted in 2020 but was fully restored by mid-2021 and surged in 2022 due to the increased demand for rental housing and industrial facilities. Residential development is occurring near the same pace as 2006 and the value of commercial and industrial structures started in 2022 are the highest on record. The surge in private and public sector development will continue into 2023 with a chance that it might help California elude recession entirely.


SDRG was formed to provide insurance for SDRMA's Self-Insured Retention for the Workers' Compensation Program and to support SDRMA's mission is to provide risk financing and risk management services through a financially sound pool to California public agencies. This market continues to remain relatively stable, however, the investment markets will influence premium increases, and little to no gains in investment income will have an adverse impact on premiums.

Investment Factors

SDRG faces many factors that can affect the value of investments including concentration of credit risk, the current state of the US and global economic outlook, geopolitical risks, and systemic risks, which may affect both equity and fixed-income securities. Equity securities respond to such factors as economic conditions, individual Captive earnings performance, and market liquidity, while fixed-income securities are particularly sensitive to credit risks and changes in interest rates.

Conclusion

This financial report is designed to provide a general overview of SDRG's financial position. Questions concerning any of the information should be addressed to SDRMA's Chief Executive Officer, 1112 I Street, Suite 300, Sacramento, California, 95814.


Laura S. Gill, ARM, ARM-P, CSDM
Chief Executive Officer, SDRMA


Jennifer Chilton, CPA, ARM
Chief Financial Officer, SDRMA

BASIC FINANCIAL STATEMENTS

SPECIAL DISTRICT REINSURANCE GROUP

STATEMENT OF NET POSITION

JUNE 30, 2022

Assets	
Current Assets	
Cash and cash equivalents	\$ 1,490,873
Prepaid expenses	6,375
Total Current Assets	<u>1,497,248</u>
Noncurrent Assets	
Investments, at market	<u>15,379,877</u>
Total Noncurrent Assets	<u>15,379,877</u>
Total Assets	<u>16,877,125</u>
Liabilities	
Current Liabilities	
Accounts payable	450,462
Interfund payable	157,834
Current portion of claim-related liabilities	<u>1,500,000</u>
Total Current Liabilities	<u>2,108,296</u>
Noncurrent Liabilities	
Noncurrent portion of claim-related liabilities	<u>7,661,433</u>
Total Noncurrent Liabilities	<u>7,661,433</u>
Total Liabilities	<u>9,769,729</u>
Net Position	
Contributed capital	8,833,000
Unrestricted	<u>(1,725,604)</u>
Total Net Position	<u>\$ 7,107,396</u>

SPECIAL DISTRICT REINSURANCE GROUP
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Operating Revenues	
Members' contribution	\$ 11,409,000
Total Operating Revenues	<u>11,409,000</u>
Operating Expenses	
Claims expense	10,520,000
General and administrative	<u>111,170</u>
Total Operating Expenses	<u>10,631,170</u>
Operating Income (Loss)	<u>777,830</u>
Nonoperating Revenues and Expenses	
Investment income	<u>(2,503,434)</u>
Total Nonoperating Revenues and Expenses	<u>(2,503,434)</u>
Change in Net Position	(1,725,604)
Beginning Net Position	3,833,000
Paid In Capital	<u>5,000,000</u>
Ending Net Position	<u>\$ 7,107,396</u>

SPECIAL DISTRICT REINSURANCE GROUP

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Cash Flows From Operating Activities	
Member contributions and dues received	\$ 11,409,000
Cash paid for claims	(1,358,566)
Cash paid for insurance premiums	(6,375)
Cash paid for administrative expenses	497,125
Net Cash Provided (Used) By Operating Activities	<u>10,541,184</u>
Cash Flows From Investing Activities	
Investment income received	486,154
Cash paid for purchase of investments	<u>(13,369,465)</u>
Net Cash Provided (Used) By Investing Activities	<u>(12,883,311)</u>
Net Increase (Decrease) In Cash	(2,342,127)
Cash, Beginning of year	<u>3,833,000</u>
Cash, End of year	<u>\$ 1,490,873</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 777,830
Adjustments to reconcile operating income (loss) to cash	
Prepaid expenses	(6,375)
Increase (decrease) in:	
Accounts payable	608,297
Claim related liabilities	9,161,432
Net Cash Provided (Used) By Operating Activities	<u>\$ 10,541,184</u>
Supplemental Disclosures	
Schedule of Noncash Investing and Financing Transactions	
Unrealized gain (loss) on investments	<u>\$ (2,989,588)</u>

SPECIAL DISTRICT REINSURANCE GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

1. GENERAL INFORMATION

A. ORGANIZATION

The Special District Reinsurance Group (the Captive) is a captive insurance company regulated by the Utah Insurance Department. The Captive is reported as a blended component unit of the Special District Risk Management Authority (the Authority), which is a California governmental Joint Powers Authority. Only the risks of the Authority, its parent company, are transferred to the Captive. The Captive, a component unit of the Authority, provides insurance coverage to the Authority. As part of the Authority, the assets, liabilities, revenues, expenses, and changes in net position of the Captive are included in the consolidated financial statements of the Authority. The Captive is a not-for-profit corporation formed on July 1, 2021 under the State of Utah rules for nonprofit entities and is governed by its Board of Directors and regulated by the Utah Insurance Department.

The Authority is the sole member of the Captive. Beginning in program year 2021/2022, the Captive provided assumed reinsurance coverage for the Authority's workers' compensation claims up to the program's self-insured retention (SIR) of \$750,000 per occurrence for claims occurring after July 1, 2021. All claims occurring prior to July 1, 2021 will remain with the Authority.

Effective for the year ended June 30, 2022, the unallocated loss adjustment expense (ULAE) component of the outstanding liability estimate is included in the Authority's workers' compensation claims liability, as those expenses are not ceded to the Captive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been rendered, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements. The Captive uses GASB reporting standards because it was formed by and for the exclusive benefit of the Authority, a government entity.

B. STATEMENTS OF CASH FLOWS

The Captive considers interest on investments to be nonoperating revenue; therefore, investment income is presented in the investing section of the Statements of Cash Flows.

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash and cash equivalents include all checking and savings accounts, cash in bank, cash with the Local Agency Investment Fund, and all highly liquid debt instruments purchased with original maturity of three months or less.

D. INVESTMENTS

The Captive records its investments at fair market value 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: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority does not have any investments that are measured using Level 3 inputs. Changes in fair market value are reported as revenue in the Statements of Revenues, Expenses, and Changes in Net Position. The effect of recording investments at fair market value is reflected as a net increase in the fair value of investments on the Statement of Revenues, Expenses, and Changes in Net Position and on the Statement of Net Position.

E. CLAIM RELATED LIABILITIES (CLAIMS PAYABLE, CLAIMS INCURRED BUT NOT REPORTED, AND LIABILITY FOR UNALLOCATED LOSS ADJUSTMENT EXPENSES)

The Captive establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). The length of time for which such costs must be estimated varies by 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, particularly for coverage such as general liability.

Claims liabilities are re-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 reflects 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 period in which they are made.

SPECIAL DISTRICT REINSURANCE GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CONTRIBUTION INCOME

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

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

The reporting entity does not include any other component units with the criterion prescribed by GAAP.

Member contributions are recognized as revenues in the period for which coverage protection is provided. If the Board of Directors determines that the funds for a program are insufficient to pay losses, the Authority may impose a supplemental assessment on all participating members. Anticipated investment income is not considered in determining supplemental assessments. Supplemental assessments are recognized as income in the period assessed.

G. MANAGEMENT ESTIMATES

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

3. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30, 2022:

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Cash in Bank	\$	374,184
Cash in Money Market Fund		1,116,689
Total Cash and Cash Equivalents	\$	<u>1,490,873</u>

Cash in Bank

The carrying amount of the Authority's cash in bank is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

B. INVESTMENTS

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 Inputs to the valuation methodology include inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within a fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds and exchange traded funds (ETF) are valued using quoted market prices (Level 1 Input).

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

Investments are not rated using a nationally recognized rating agency due to the nature of mutual fund and ETF investments. Investments consist of the following at June 30, 2022:

Exchange Traded Funds:		
Equity	\$	5,843,795
Bond		1,304,464
Mutual Funds:		
Equity		1,365,512
Bond		5,745,123
Other		1,120,983
Total Investments	\$	<u>15,379,877</u>

The Captive's mutual funds and ETFs are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets.

Concentration of Credit Risk

The Captive's investment policy places long-term asset allocation targets stated

below: Captive's Target

Equities	50%
Fixed Income	50%

1. The equity allocation limitation is specific to the surplus funds of the Captive.
2. The asset manager will be responsible for determining the asset allocation within the targets and rebalance as necessary.
3. The fixed income allocation includes the liquidity portion to meet short-term cash flow requirements. The liquidity portfolio will maintain cash and cash equivalents of \$250,000 as required by the Utah Insurance Department.

The investments in the Captive's portfolio as of June 30, 2022 conform to these guidelines.

Custodial Credit Risk

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

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair values to changes in market interest rates. As of June 30, 2022, the average effective maturity of the underlying investments held in the Captive's fixed-income funds was approximately 8.20 years.

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

4. UNPAID CLAIM LIABILITIES

The Captive 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 those aggregate liabilities for all programs during the year ended June 30, 2022:

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	\$	-
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Year		10,520,000
Increase (Decrease) in Provision of Insured Events of Prior Years		-
Changes in Unallocated Loss Adjustment Expense (ULAE)		-
		-
Total Incurred Claims and Claim Adjustment Expenses		10,520,000
Payments:		
Claim and Claim Adjustment Expenses Attributable to Insured Events of the Current Year		1,358,567
Claim and Claim Adjustment Expenses Attributable to Insured Events of Prior Years		-
		-
Total Payments		1,358,567
Total Unpaid Claims and Claims Adjustment Expenses	\$	9,161,433
Detail of Claim Related Liabilities:		
Claims Payable	\$	3,036,727
Claims Incurred But Not Reported		6,124,706
Unallocated Loss Adjustment Expenses		-
Totals	\$	9,161,433
Current Portion	\$	1,500,000
Long-term Portion		7,661,433
Totals	\$	9,161,433

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE FINANCIAL STATEMENTS

AS OF JUNE 30, 2022

5. SUBSEQUENT EVENTS

The Captive's management has reviewed its financial statements and evaluated subsequent events for the period of time from its year ended June 30, 2022 through November 1, 2022, the date the financial statements were issued. Management is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements

REQUIRED SUPPLEMENTARY INFORMATION

SPECIAL DISTRICT REINSURANCE GROUP

CLAIMS DEVELOPMENT INFORMATION

AS OF JUNE 30, 2022

	<u>Fiscal and Policy Year Ended June 30,</u>	
	<u>2022</u>	
Total Required Contribution and Investment Revenue Ceded	\$	8,905,566
		-
1 Net Earned Required Contribution and Investment Revenues		8,905,566
2 Unallocated Expenses		111,170
3 Estimated Incurred Claims and Expense End of Year		10,520,000
Ceded		-
Net Incurred		<u>10,520,000</u>
4 Paid (Cumulative) End of Year		1,358,567
5 Reestimated Ceded Claims and Exper		-
6 Reestimated Incurred Claims and Expenses End of Year		10,520,000
7 Increase (Decrease) in Estimated Incurred Claims Expense from End of Policy Year	\$	<u>-</u>

SPECIAL DISTRICT REINSURANCE GROUP

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEAR ENDED JUNE 30, 2022

1) CLAIMS DEVELOPMENT INFORMATION

The following tables illustrate the Captive's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of the year. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's earned contribution revenues and investment revenues, net of ceded premiums.
2. This line shows the Captive's other operating costs including overhead and claims adjustment expenses not allocable to individual claims.
3. This line shows the Captive's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the year, net of claims in excess of the Authority's self-insured retention.
4. This section shows the cumulative amounts paid as of the end of the year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each insured year.
6. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated 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.

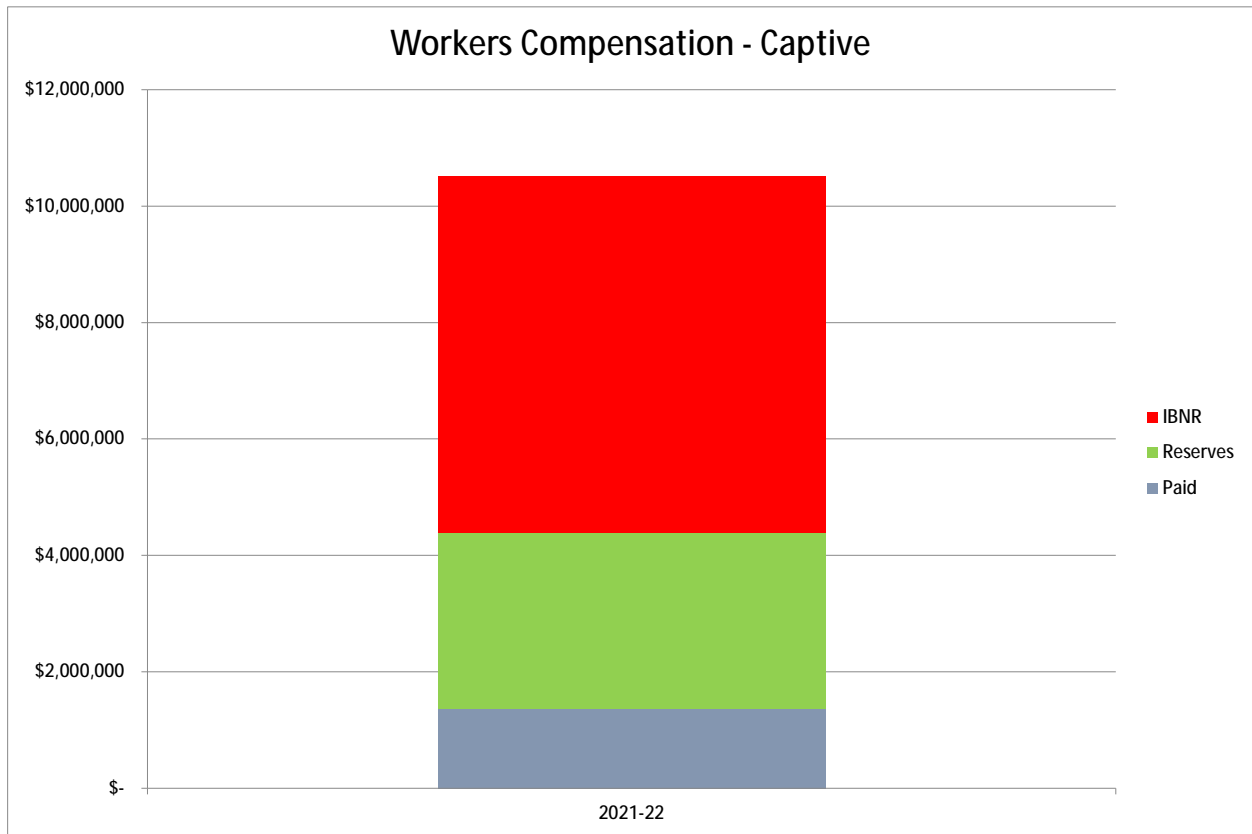
As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

SUPPLEMENTARY INFORMATION

SPECIAL DISTRICT REINSURANCE GROUP

GRAPHICAL PRESENTATION OF CLAIMS

JUNE 30, 2022



The captive started covering Workers Compensation claims starting 7/1/21.