JohnsonLambert LLP
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Sequoia Pacific Reinsurance Company

Audited Financial Statements
with Required Supplementary Information

Years ended June 30, 2023 and 2022
with Report of Independent Auditors

Sequoia Pacific Reinsurance Company

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with Required Supplementary Information

Years ended June 30, 2023 and 2022

Contents

Report of Independent Auditors

The Board of Directors
Sequoia Pacific Reinsurance Company

Opinion

We have audited the financial statements of Sequoia Pacific Reinsurance Company (the Company), which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations 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). 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 Company 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 Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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 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 the Company'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 Company'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 disclosures about short-duration insurance contracts including incurred and cumulative paid losses and allocated loss adjustment expenses and average annual percentage payout of incurred claims by age on pages 16 - 19 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 Financial 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.

Johnson Lambert LLP

Williston, Vermont
December 12, 2023
Vermont firm registration: 092-0000267

Sequoia Pacific Reinsurance Company

Balance Sheets

	At June 30, 2023	At June 30, 2022
Assets		
Cash and cash equivalents	$ 217,476	$ 4,039,138
Mutual funds, at fair market value	80,741,317	60,155,261
Prepaid expenses	16,601	-
Total assets	$ 80,975,394	$ 64,194,399
Liabilities and shareholder's equity		
Liabilities:		
Losses and loss adjustment expenses, discounted	$ 26,835,277	$ 20,105,748
Losses payable	309,949	314,797
Accounts payable, accrued expenses, and other liabilities	92,518	61,456
Total liabilities	27,237,744	20,482,001
Shareholder's equity:		
Contributed capital	20,000,000	20,000,000
Retained earnings	33,737,650	23,712,398
Total shareholder's equity	53,737,650	43,712,398
Total liabilities and shareholder's equity	$ 80,975,394	$ 64,194,399

See accompanying notes to the financial statements

Sequoia Pacific Reinsurance Company

Statements of Operations

	Year ended June 30, 2023	2022
Revenues		
Premiums earned	$ 11,826,000	$ 11,496,400
Net investment income	2,297,354	2,260,196
Net investment gains (losses)	3,588,444	(12,194,958)
Total revenues	17,711,798	1,561,638
Expenses		
Losses and loss adjustment expenses, discounted	7,473,000	8,096,000
General and administrative expenses	213,546	165,951
Total expenses	7,686,546	8,261,951
Net income (loss)	$ 10,025,252	$ (6,700,313)

See accompanying notes to the financial statements

Sequoia Pacific Reinsurance Company

Statements of Changes in Shareholder's Equity

For the years ended June 30, 2023 and 2022

	Contributed Capital	Retained Earnings	Total Shareholder's Equity
Balance at June 30, 2021	$ 20,000,000	$ 30,412,711	$ 50,412,711
Net loss	-	(6,700,313)	(6,700,313)
Balance at June 30, 2022	20,000,000	23,712,398	43,712,398
Net income	-	10,025,252	10,025,252
Balance at June 30, 2023	$ 20,000,000	$ 33,737,650	$ 53,737,650

See accompanying notes to the financial statements

Sequoia Pacific Reinsurance Company

Statements of Cash Flows

	Year ended June 30, 2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 10,025,252	$ (6,700,313)
Adjust for items not affecting cash:		
Net investment (gains) losses	(3,588,444)	12,194,958
Changes in assets and liabilities:		
Prepaid expenses	(16,601)	-
Losses and loss adjustment expenses, discounted	6,729,529	6,295,899
Losses payable	(4,848)	(217,355)
Accounts payable, accrued expenses, and other liabilities	31,062	31,517
Net cash from operating activities	13,175,950	11,604,706
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	34,125,165	32,163,532
Cost of investments purchased	(51,122,777)	(40,428,900)
Net cash from investing activities	(16,997,612)	(8,265,368)
Net change in cash and cash equivalents	(3,821,662)	3,339,338
Cash and cash equivalents, beginning of year	4,039,138	699,800
Cash and cash equivalents, end of year	$ 217,476	$ 4,039,138

See accompanying notes to the financial statements

Sequoia Pacific Reinsurance Company

Notes to the Financial Statements

For the years ended June 30, 2023 and 2022

Note A - Organization and Significant Accounting Policies

Organization and Nature of Business
Sequoia Pacific Reinsurance Company (the Company) commenced operations on July 1, 2019 under the captive insurance company laws of the State of Utah to insure the risks of California Joint Powers Insurance Authority (the Parent). The Company is a wholly-owned subsidiary of the Parent, a municipal self-insurance pool established in 1978 for the purpose of providing liability protection from losses and lawsuits for its members. The Company provides reinsurance coverage to the Parent, as more fully described in Note B.

Basis of Presentation
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as promulgated by the Financial Accounting Standards Board Accounting Standards Codification. Preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Company evaluated the financial statements for subsequent events for disclosure and recognition through December 12, 2023, the date that the financial statements were available to be issued.

Equity Securities
Investments in marketable equity securities are carried at fair value. For the years ended June 30, 2023 and 2022, changes in fair value on securities are reported as a component of net investment gains (losses) on the statements of operations.

Cash and Cash Equivalents
The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Cash and cash equivalents consist of the following at June 30:

	2023	2022
Bank of West checking	$ 100,375	$ 182,511
U.S. Bank money market funds	117,101	3,856,627
Total cash and cash equivalents	$ 217,476	$ 4,039,138

Note A - Organization and Significant Accounting Policies (Continued)

The Federal Deposit Insurance Corporation (FDIC) insures amounts on deposit with each financial institution up to limits as prescribed by law. The Company may hold funds with financial institutions in excess of, or not subject to, the FDIC insured amount, however, the Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Revenue Recognition
Premiums are earned ratably over the terms of the policy to which they relate. The Company's policy is written in line with the fiscal year; therefore, there are no unearned premiums at June 30, 2023 and 2022.

Losses and Loss Adjustment Expenses (LAE), Discounted
The liability for losses and LAE includes amounts for case-basis reserves and incurred but not reported (IBNR) losses calculated based upon loss projections utilizing historical data of the Parent and industry data. In establishing its liability for losses and LAE, the Company utilizes the findings of an independent consulting actuary. A significant degree of judgment is required in estimating the liability for losses and loss adjustment expense reserves. The principal method utilized by the Company's actuary to evaluate management's existing reserve estimates was to apply the loss rates developed for each layer to the estimated exposures for the exposure period. IBNR reserves are derived from the difference between the projected ultimate losses and loss expenses incurred and the sum of case-basis losses and loss expense reserves and inception-to-date paid losses and loss expenses. An estimate of ultimate losses and loss expenses is projected at each reporting date. IBNR reserves are derived from the difference between projected ultimate losses and loss expenses incurred.

Management believes that its aggregate liability for unpaid losses and LAE, discounted, represents its best estimate, based upon the available data, of the amount necessary to cover the ultimate cost of losses. However, because of the uncertain nature of reserve estimates, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in estimating the liability. As a result, loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly different than the amount indicated in the financial statements. As described in Note B, management has discounted certain reserves as of June 30, 2023 and 2022. Discounting of reserves also creates additional risk that the timing of the future payment of liabilities of the expected return on investments will differ materially from the assumptions underlying the projections. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Note A - Organization and Significant Accounting Policies (Continued)

Losses Payable
Losses payable represent the liability associated with the payment to the Parent for losses and LAE that have been approved by the Company for payment, for which payments are in process at year end.

Federal Income Taxes
The Company is tax exempt for federal reporting purposes under Section 115 of the Internal Revenue Code. The Company is not subject to state income taxes. Accordingly, the accompanying financial statements do not include a provision or related liability for income taxes.

Note B - Insurance Activity

Effective July 1, 2019, the Company began providing general liability, automobile liability, police professional liability, public officials, workers compensation and property liability coverages.

The Company's combined maximum policy limit for all deductible reimbursement coverage lines is $30,500,000 and $20,000,000 in the aggregate for the policy periods ending June 30, 2023 and 2022, respectively.

The various coverages and limits of liability are as follows:

Coverage	Policy Period	Coverage Placed & Aggregate Limits
General liability, automobile liability, professional liability & public officials liability	7/1/21-6/30/22	$2 million in excess of $3 million per occurrence, $5 million in aggregate $2 million annual aggregate deductible in $5 million excess $5 million layer $3 million annual aggregate deductible in $10 million excess $10 million layer 30% share in $10 million excess $10 million layer, $2 million aggregate
	7/1/22-6/30/23	$3 million in excess of $3 million per occurrence, $9 million in aggregate $3 million annual aggregate deductible in $10 million excess $10 million layer 25% share in $10 million excess $10 million layer, $7.5 million aggregate 10% share in $10 million excess $20 million layer, $3 million aggregate
Workers compensation	7/1/21-6/30/23	$1 million in excess of $1 million per occurrence, $3 million in aggregate

Note B - Insurance Activity (Continued)

Coverage	Policy Period	Coverage Placed & Aggregate Limits
Property	7/1/21-6/30/23	$10 million annual aggregate deductible in $5 million excess $4 million layer

The Company provided coverage for the same lines of business at various limits in prior policy periods.

The components of the liability for losses and LAE as of June 30, 2023 and 2022 are as follows:

	2023	2022
Case-basis reserves	$ 11,226,695	$ 7,627,459
IBNR reserves	20,372,713	16,674,075
Discounting	(4,764,131)	(4,195,786)
Total losses and loss adjustment expenses	$ 26,835,277	$ 20,105,748

Losses and LAE, discounted activity for the years ended June 30, 2023 and 2022 is as follows:

	2023	2022
Liability as of beginning of year	$ 20,105,748	$ 13,809,849
Incurred related to:		
Current year	11,500,009	11,805,640
Prior years	(3,458,664)	(1,981,249)
Change in discounting	(568,345)	(1,728,391)
Total incurred during the year	7,473,000	8,096,000
Paid related to:		
Current year	-	-
Prior years	(743,471)	(1,800,101)
Total paid during the year	(743,471)	(1,800,101)
Liability as of end of year	$ 26,835,277	$ 20,105,748

In 2023, the liability for losses and LAE relating to prior years decreased primarily as a result of favorable incurred development in the 2020, 2021, and 2022 liability coverage policies and the 2020 and 2021 property policies.

In 2022, the liability for losses and LAE relating to prior years decreased primarily as a result of favorable incurred development in the 2020 and 2021 liability coverages, workers' compensation and property policies.

Note B - Insurance Activity (Continued)

The reconciliation of the incurred and paid losses development tables to the liability for losses and LAE on the balance sheet as of June 30, 2023 is as follows:

Net outstanding liabilities (undiscounted)	
General Liability	$ 15,330,572
Workers' Compensation	6,344,914
Property	9,923,922
Liabilities for unpaid losses and loss adjustment expenses	31,599,408
Discounting	(4,764,131)
Total liability for unpaid losses and loss adjustment expenses, discounted	$ 26,835,277

The following is information about incurred and cumulative paid losses and LAE and total IBNR liabilities plus expected development on reported claims, and the cumulative number of reported claims as of June 30, 2023, by category:

General Liability

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2020	$ 2,517,668	$ -	$ 2,517,668	-
2021	3,912,806	-	3,718,724	1
2022	4,390,333	-	3,332,857	1
2023	4,509,765	-	4,445,765	1
Total	$ 15,330,572	$ -	$ 14,015,014	

Workers' Compensation

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2020	$ 1,103,744	$ 95,167	$ 1,008,576	1
2021	1,575,890	-	1,575,890	1
2022	1,770,203	-	1,770,204	-
2023	1,990,244	-	1,990,244	-
Total	$ 6,440,081	$ 95,167	$ 6,344,914	

Note B - Insurance Activity (Continued)

Property

Accident Year	Incurred	Cumulative Paid	Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2020	$ -	$ -	$ -	-
2021	2,905,446	2,496,593	12,785	208
2022	5,000,000	484,931	-	154
2023	5,000,000	-	-	122
Total	$ 12,905,446	$ 2,981,524	$ 12,785	

The Company determines the number of reported claims by tracking the number of claims at the claimant level. Each claim has a claim number and claimant. Claims are not included in the analysis until they have been reported by a claimant.

Discounted liability, discount rate, discounts and change in discounting as of and for the years ended June 30, 2023 and 2022, respectively, are as follows for general liability, workers' compensation and property:

Coverage	Discounted Liabilities for Unpaid Losses and Loss Adjustment Expenses		Discount Rate		Amount of Discount		Change in Discounting	
	2023	2022	2023	2022	2023	2022	2023	2022
General Liability	$ 12,601,233	$ 10,171,933	4.00 %	4.00 %	$ 2,729,339	$ 2,178,300	$ 551,039	$ 705,211
Workers' Compensation	4,310,122	2,907,327	4.00 %	4.00 %	2,034,792	1,548,146	486,646	553,840
Property	-	7,026,488	- %	4.00 %	-	469,340	(469,340)	469,340
Total	$ 16,911,355	$ 20,105,748			$ 4,764,131	$ 4,195,786	$ 568,345	$ 1,728,391

Property liabilities have not been discounted for the year ended June 30, 2023. The change in discounting is included in losses and loss adjustment expenses, discounted on the statements of operations.

Note C - Investments

The components of net investments gains (losses) are summarized as follows for the years ended June 30, 2023 and 2022:

	2023	2022
Net change in fair value recognized on securities held at year end	$ 4,152,268	$ (9,440,015)
Net change in fair value on securities sold during the year	(563,824)	(2,754,943)
Net investment gains (losses)	$ 3,588,444	$ (12,194,958)

Fair Value Measurements
The Company's estimates of fair value for financial assets are based on the framework established in the Fair Value Measurements and Disclosures (ASC 820) accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1: Inputs to the valuation methodology are quoted prices for identical assets traded in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market corroborated inputs.

Level 3: Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

The Company's investments with a fair value of $80,741,317 and $60,155,261 as of June 30, 2023 and 2022, respectively, are composed of actively traded mutual funds and categorized as Level 1 in accordance with the fair value hierarchy.

Note C - Investments (Continued)

Major categories of the Company's net investment income are summarized as follows:

	2023	2022
Interest income	$ 2,478,779	$ 2,436,944
Custodial fees	(17,474)	(17,783)
Investment management fee	(163,417)	(158,409)
Bank fees	(534)	(556)
Net investment income	$ 2,297,354	$ 2,260,196

Note D - Significant Agreements and Transactions with Related Parties

The Company does not have any employees. Beginning in August 2020, Strategic Risks Solutions (SRS) was engaged to provide accounting, financial reporting, regulatory compliance, records retention, and other related services to the Company.

Note E - Shareholder's Equity

The Company is required to maintain minimum shareholder's equity of $250,000. At June 30, 2023 and 2022, shareholder's equity totaled $53,737,650 and $43,712,398, respectively.

The Company may not pay a dividend out of, or other distribution with respect to, shareholder's equity without prior approval of the Director of Insurance of the State of Utah. No dividends were declared or paid during the years ended June 30, 2023 and 2022.

There are no differences other than rounding between shareholder's equity and net income (loss) per these financial statements and the corresponding amounts per the June 30, 2023 and 2022 Utah Captive Insurance Annual Statements.

Required Supplementary Information

Sequoia Pacific Reinsurance Company

Incurred Cumulative Paid Losses and Allocated Loss Adjustment Expenses (Unaudited)

The following is information about incurred and paid claims development and by category for years ended June 30.

General Liability

	Incurred Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	$ 4,929,000	$ 3,536,785	$ 2,982,107	$ 2,517,668
2021		4,748,719	4,495,991	3,912,806
2022			4,872,136	4,390,333
2023				4,509,765
Total				15,330,572

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	-	-	-	-
2021		-	-	-
2022			-	-
2023				-
Total				-
All outstanding liabilities before 2020				-
Liabilities for losses and loss adjustment expenses				$ 15,330,572

Sequoia Pacific Reinsurance Company

Incurred Cumulative Paid Losses and Allocated Loss Adjustment Expenses (Unaudited)

Workers' Compensation

	Incurred Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	$ 1,191,000	$ 1,256,157	$ 1,125,779	$ 1,103,744
2021		1,777,734	1,744,072	1,575,890
2022			1,933,504	1,770,203
2023				1,990,244
Total				6,440,081

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	-	95,167	95,167	95,167
2021		-	252,716	-
2022			-	-
2023				-
Total				95,167
All outstanding liabilities before 2020				-
Liabilities for losses and loss adjustment expenses				$ 6,344,914

Sequoia Pacific Reinsurance Company

Incurred Cumulative Paid Losses and Allocated Loss Adjustment Expenses
(Unaudited) (Continued)

Property

	Incurred Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	$ 5,000,000	$ 972,000	$ 635,027	$ -
2021		4,518,000	3,845,170	2,905,446
2022			5,000,000	5,000,000
2023				5,000,000
Total				12,905,446

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses			
Accident Year	2020	2021	2022	2023
2020	-	-	-	-
2021		436,984	1,984,369	2,496,593
2022			-	484,931
2023				-
Total				2,981,524
All outstanding liabilities before 2020				-
Liabilities for losses and loss adjustment expenses				$ 9,923,922

Sequoia Pacific Reinsurance Company

Average Annual Percentage Payout of Incurred Claims by Age (Unaudited)

The following is the average historical claims duration as of June 30, 2023 by category:

Average Annual Percentage Payout of Incurred Claims by Age				
Years	1	2	3	4
General Liability	- %	- %	- %	- %
Workers' Compensation	- %	8.2 %	(8.0)%	- %
Property	5.0 %	31.5 %	17.6 %	- %