

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2014 AND 2013**

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**BOARD OF DIRECTORS**

**JUNE 30, 2014**

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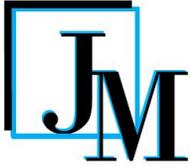
<b>Member</b>	<b>Representative</b>	<b>Office</b>
Campbell Union School District	James Crawford	President
Evergreen School District	Nelly Yang	Vice President
Santa Clara County Office of Education	Barbara Coats	Secretary
Berryessa Union School District	Phuong Le	Treasurer
Lakeside Joint School District	Eric Bitter	Member
Los Altos School District	Randy Kenyon	Member
Los Gatos-Saratoga Joint Union HS District	Thomas Woodruff	Member
Metropolitan Education District	Debbie Fry	Member
Milpitas Unified School District	Wendy Zhang	Member
Mountain View-Los Altos Union HS District	Mike Mathiesen	Member
Santa Clara Unified School District	Mark Allgire	Member at Large
Mountain View-Whisman School District	Terese McNamee	Member

# SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

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**James Marta & Company LLP**  
*Certified Public Accountants*

*Accounting, Auditing, Consulting, and Tax*

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
South Bay Area Schools Insurance Authority  
Sacramento, California

**Report on the Financial Statements**

We have audited the accompanying Statements of Net Position of South Bay Area Schools Insurance Authority (SBASIA) as of June 30, 2014 and 2013, and the related Statements of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows for the years then ended, and the related notes to the financial statements.

**Managements Responsibility for the Financial Statements**

Management is responsible for the preparation and presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, 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*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Bay Area Schools Insurance Authority as of June 30, 2014 and 2013 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Claims Development Information, and the Notes to Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 the 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 Matters*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SBASIA's basic financial statements. The Graphical Summary of Claims are presented 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 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 information 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 December 2, 2014 on our consideration of South Bay Area Schools Insurance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the entities internal control over financial reporting and compliance.

*James Marta & Company LLP*

James Marta & Company LLP  
Certified Public Accountants  
December 2, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

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The following narrative provides an overview and analysis of the financial activities of South Bay Area Schools Insurance Authority (SBASIA) for the fiscal year ending June 30, 2014. It is provided in order to enhance the information in the financial audit and should be reviewed with that report.

### **Financial Highlights**

- Total operating revenues were \$3,136,614, an increase of 5.5 percent over the prior year.
- Total interest income was \$15,590, a decrease of 36.9 percent from the prior year.
- Total expenses were \$2,703,539, a decrease of 20.2 percent from the prior year.
- Total assets increased by 3.72 percent to \$5,012,294.
- Total liabilities decreased by 10.6 percent to \$2,267,593.
- Total net position (equity) increased by 19.5 percent to \$2,744,701.

### **Description of the Basic Financial Statements**

SBASIA's financial statements are prepared in conformity with generally accepted accounting principles including amounts established based upon reliable estimates and judgments. The Statement of Net Position presents the assets and liabilities with the difference representing the net position. The Statement of Revenues, Expenses and Changes in Net Position presents the revenue and expenses for the year and discloses the changes in net position, or pool equity, during the fiscal year. All income and expenses are reported in the statement as soon as the underlying event causing a change occurs regardless of the related cash flow. Thus, uncollected income will be reflected in the Statement of Net Position as an accounts receivable and an unpaid expense will be recognized as a liability.

The Statement of Cash Flows is being presented by listing the cash inflow by category and all cash outflow by category to achieve the change over the year in cash as well as the ending cash balance. The Statement of Cash Flows also reconciles operating income to operating cash flows.

James Marta & Company, Certified Public Accountants, performed an independent audit of SBASIA's financial statements and found them to be in accordance with accounting principles generally accepted in the United States of America. Bickmore Risk Services, Inc. provided an independent analysis of SBASIA claims and projected the outstanding liabilities for unpaid claims used in SBASIA's financial statements.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

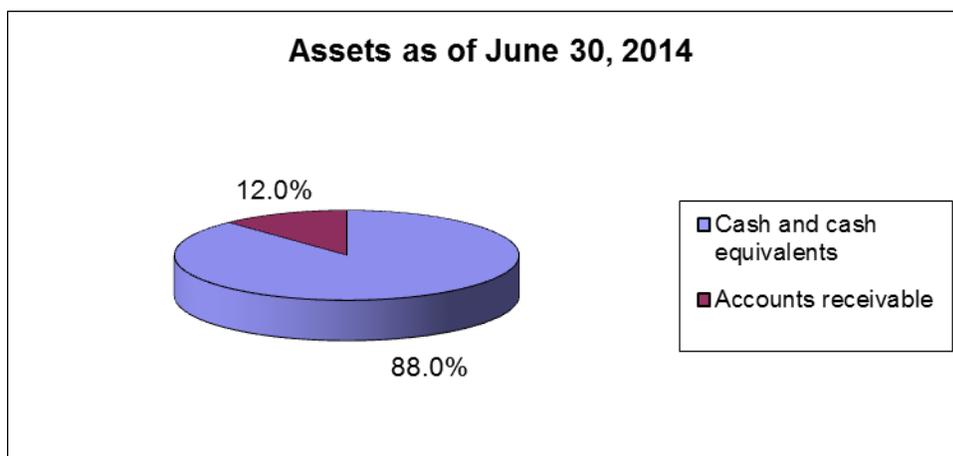
**JUNE 30, 2014**

**Condensed Statement of Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>% Change June 30, 2013 to June 30, 2014</u>	<u>June 30, 2012</u>	<u>% Change June 30, 2012 to June 30, 2013</u>
<b>Assets</b>					
Total Assets	\$ 5,012,294	\$ 4,832,537	3.72%	\$ 4,833,664	0.02%
<b>Liabilities</b>					
Total Current Liabilities	653,479	604,094	8.17%	903,621	-33.15%
Total Long Term Liabilities	1,614,114	1,932,407	-16.47%	1,244,771	55.24%
<b>Net Position</b>					
Net Position	\$ 2,744,701	\$ 2,296,036	19.54%	\$ 2,685,272	-14.5%

**SBASIA Pool Assets**

SBASIA assets are considered current assets and are invested through the investment pool run by the County of Santa Clara. There is also an account with Bank of America to pay operating expenses. The accounts receivable represents primarily deductibles that the members owe to SBASIA for claims incurred by the members. The types of assets as a percentage of the total assets are as follows:



Investments and cash have increased by 8.14 percent from prior year, from \$4,077,905 to \$4,409,947.

Accounts receivable has decreased by 20.18 percent from prior year, from \$754,632 to \$602,347.

# SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

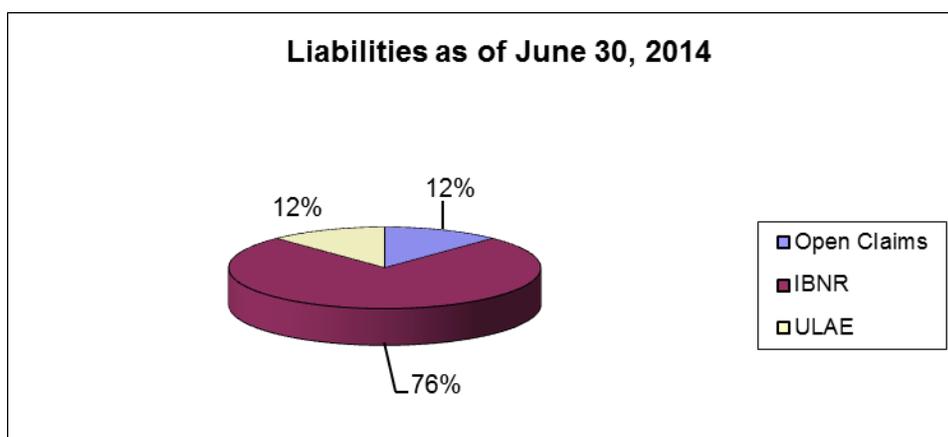
JUNE 30, 2014

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### SBASIA Pool Liabilities

The pool liabilities consist primarily of expected future payments of claims. An actuarial study is performed to determine, as accurately as possible, the liabilities expected in the future. These liabilities are discounted to recognize the funds needed as of June 30, 2014 to meet the payments in the future from these funds plus interest earned on the funds prior to being expended. These liabilities are broken down into Open Claims, that is the amount anticipated by the claims adjuster needed before the claim is closed, ULAE (unallocated loss adjustment expenses such as claims adjusters' salaries), that is the amount to administer claims to final settlement which may be years in the future, and IBNR (incurred but not reported).

The following pie chart indicates the percentages that each liability represents to the total liabilities of \$2,267,593:



Open claims have decreased by 70.29 percent from the prior year, from \$927,829 to \$275,634.

IBNR has increased by 19.96 percent over prior year, from \$1,427,577 to \$1,712,480.

ULAE has increased by 55.93 percent over prior year, from \$177,000 to \$276,000.

### Net position

The net position as of June 30, 2014 was \$2,744,701 an increase of \$448,665. The net position is segregated into Loss Control Reserves, Contingency Reserve, and Undesignated Reserve. The Loss Control Reserve is an amount set aside to fund programs believed to reduce the costs of claims in the future. The Contingency Reserve represents funds designated to fund an unexpected fiscal drain due to losses as well as to provide SBASIA the ability to react to escalating insurance costs by increasing the amount retained in the pool.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>Change June 30, 2013 to June 30, 2014</b>	<b>June 30, 2012</b>	<b>% Change June 30, 2012 to June 30, 2013</b>
Contingency Reserve	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -
Loss Control	100,000	100,000	-	96,439	3,561
Undesignated	144,701	(303,964)	448,665	88,833	(392,797)
Prior Period Adjustment	-	-	-	-	-
<b>Total Net Position</b>	<b>\$ 2,744,701</b>	<b>\$ 2,296,036</b>	<b>\$ 448,665</b>	<b>\$ 2,685,272</b>	<b>\$ (389,236)</b>

**Condensed Statement of Revenues, Expenses & Changes in Net position**

	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>% Change June 30, 2013 to June 30, 2014</b>	<b>June 30, 2012</b>	<b>% Change June 30, 2012 to June 30, 2013</b>
<b>Revenue</b>					
Total Revenues	\$ 3,152,204	\$ 2,996,715	5.2%	\$ 3,360,090	-10.8%
<b>Expenses</b>					
Total Expenses	2,703,539	3,385,951	-20.2%	2,738,975	23.6%
<b>Net Income</b>	<b>\$ 448,665</b>	<b>\$ (389,236)</b>	<b>215.3%</b>	<b>\$ 621,115</b>	<b>-162.7%</b>

**Revenue and Expenses**

Revenues consist primarily of member contributions, with interest income only representing about .49 percent of the total revenues. The revenues exceeded expenses by \$448,665. Total Operating Revenues increased by approximately 5.5 percent from prior year's revenues, while Total Operating Expenses decreased by 20.2 percent.

Claims expenses decreased by 73.7% percent from last year's claims expenses. Claims expenses for the year can be broken down into four different components. First is the actual cash payment for claims. This year the amount paid was \$679,615. The second component is the change in reserves established on known claims. This year the reserves decreased by \$652,195. The third component is the change in accounts receivable. This year the receivables decreased by \$152,285. Finally, the fourth component is the change in actuarially determined amounts in excess of known reserves to recognize the unanticipated changes in known claims as well as recognition of claims incurred but not yet reported. This change was an increase of \$284,903. The total costs of claims for the year ending June 30, 2014 was \$312,323.

**Self-insurance Program Structure**

The program of SBASIA provides liability, property and crime insurance to its members and itself. SBASIA self-insures a portion of the losses and purchases excess coverage to protect the pool against unusually large or catastrophic claims. To put some direct financial impact to the members and to eliminate the pool oversight of smaller claims, SBASIA's program instituted deductibles of \$5,000 for liability, \$10,000 for property and \$1,000 for crime. Thus, the structures of the coverages in the program can be depicted as follows:

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

<b>LIABILITY</b>	<b>PROPERTY</b>	<b>CRIME</b>
<p><i>California State Association of Counties-Excess Insurance Authority (CSAC-EIA)</i></p> <p>EXCESS II</p> <p>\$24,000,000</p> <p>EXCESS OF \$1,000,000</p>	<p><i>Public Entity Property Insurance Program (PEPIP)</i></p> <p>\$1,000,000,000</p> <p>EXCESS OF \$500,000</p>	<p><i>National Union Fire Insurance Co. of Pittsburgh, PA</i></p> <p>\$1,000,000 per occurrence limit:</p> <ul style="list-style-type: none"> <li>• Employee Theft-Per Loss</li> <li>• Forgery or Alteration</li> <li>• Inside the Premises-Theft of Money &amp; Securities</li> <li>• Inside the Premises-Robbery &amp; Safe Burglary of Other Property</li> <li>• Outside the Premises</li> <li>• Computer Fraud</li> <li>• Funds Transfer Fraud</li> <li>• Money Orders &amp; Counterfeit Money</li> </ul>
<p><i>Genesis Insurance Company</i></p> <p>EXCESS I</p> <p>\$700,000</p> <p>EXCESS OF \$300,000</p>	<p>INCLUDES BOILER &amp; MACHINERY \$100,000,000</p> <p>REPLACEMENT COST SBASIA Shared Risk* \$490,000 over Deductible</p>	<p>SBASIA Shared Risk \$4,000 over Deductible</p>
<p>SBASIA Shared Risk \$295,000 over Deductible</p>		
<p>District Deductible \$5,000</p>	<p>District Deductible \$10,000</p>	<p>District Deductible \$1,000</p>

\*Shared Risk does not apply to Boiler & Machinery

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014**

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**Conclusion**

SBASIA funds to not only meet the requirements of expected future liabilities based on actuarial projections, but to include a safe margin of error at a minimum 70 percent confidence level. SBASIA investments are liquid since they are invested through the investment pool provided by the County of Santa Clara. Further, there are no anticipated external or internal events in the near future that would affect this funding in any significant manner.

# **FINANCIAL STATEMENTS**

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**STATEMENTS OF NET POSITION**

**JUNE 30, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,409,947	\$ 4,077,905
Accounts receivable	602,347	754,632
<b>Total Assets</b>	<u>5,012,294</u>	<u>4,832,537</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	3,479	4,094
Current portion of claim liabilities	650,000	600,000
<b>Total Current Liabilities</b>	<u>653,479</u>	<u>604,094</u>
<b>Noncurrent Liabilities</b>		
Claim liabilities	<u>1,614,114</u>	<u>1,932,407</u>
<b>Total Liabilities</b>	<u>2,267,593</u>	<u>2,536,501</u>
<b>NET POSITION</b>		
Net Position	<u>\$ 2,744,701</u>	<u>\$ 2,296,036</u>

*The accompanying notes are an integral part of these financial statements.*

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Contributions	<u>\$ 3,136,614</u>	<u>\$ 2,971,993</u>
<b>Operating Expenses</b>		
Insurance premiums	2,032,244	1,902,643
Claims expense	312,323	1,186,732
Contract administration	228,312	214,476
Other operating expenses	<u>130,660</u>	<u>82,100</u>
Total Operating Expenses	<u>2,703,539</u>	<u>3,385,951</u>
Operating Income/(Loss)	433,075	(413,958)
<b>Nonoperating Income</b>		
Interest income	<u>15,590</u>	<u>24,722</u>
<b>Change in Net Assets</b>	448,665	(389,236)
Beginning position	2,296,036	2,685,272
Ending Net Position	<u><u>\$ 2,744,701</u></u>	<u><u>\$ 2,296,036</u></u>

*The accompanying notes are an integral part of these financial statements.*

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**STATEMENTS OF CASH FLOWS**

**JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operating Activities</b>		
Contributions received	\$ 3,288,899	\$ 2,448,230
Claims and claim adjustment expenses paid	(580,616)	(549,096)
Insurance premiums paid	(2,032,244)	(1,902,643)
General and administrative expenses paid	(359,587)	(546,103)
Net Cash Flows Provided (Used) by Operating Activities	316,452	(549,612)
 <b>Cash Flows From Investing Activities</b>		
Interest income received	15,590	24,722
Net Cash Flows Provided by Investing Activities	15,590	24,722
 Beginning Cash and Cash Equivalents	4,077,905	4,602,795
Ending Cash and Cash Equivalents	\$ 4,409,947	\$ 4,077,905
 <b>Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities</b>		
Operating income (Loss)	\$ 433,075	\$ (413,958)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
(Increase) decrease in:		
Accounts receivable	152,285	(523,763)
Increase (decrease) in:		
Accounts payable	(615)	(249,527)
Claims liabilities	(268,293)	637,636
Net Cash Provided (Used) by Operating Activities	\$ 316,452	\$ (549,612)

*The accompanying notes are an integral part of these financial statements.*

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization**

The South Bay Area Schools Insurance Authority (The “Authority”) was organized in accordance with Title I, Division 7, Chapter 5, Article I of the Government Code of the State of California. The purpose of the Authority is to jointly establish, operate, and maintain a self-insurance program for liability and property damage protection.

The participating districts as of June 30, 2014 are as follows:

Berryessa Union School District  
Campbell Union School District  
Evergreen School District  
Lakeside Joint School District  
Los Altos School District  
Los Gatos-Saratoga Joint Union High School District  
Metropolitan Education District  
Milpitas Unified School District  
Mountain View-Los Altos Union High School District  
Mountain View-Whisman School District  
Santa Clara County Office of Education  
Santa Clara Unified School District

**B. Admission and Withdrawal of Members**

Under the Authority’s Joint Powers Agreement, new members may be admitted by a majority vote of the Board of Directors. Upon entry into the Authority, members may not voluntarily withdraw for a period of three years. Members must submit a written notice of preliminary intent to withdraw by October 1 of the calendar year prior to the effective date of withdrawal and provide a written final notice of withdrawal prior to December 15 following the preliminary notice. In all cases, withdrawal shall be effective on the following June 30. Members may be expelled by a majority vote. The effect of withdrawal does not terminate the responsibility of the member for any unpaid premiums and debts or assessments levied against its years of participation.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**C. Description of Programs**

Pursuant to a Joint Powers Agreement authorized under California Government Code sections 990, 990.4, 990.8 and 6500-6515 between the Member Districts, South Bay Area Schools Insurance Authority was established to provide for pooling of liability, property and crime coverage.

Property: JPA Retained Limit - \$490,000 over member deductible of \$10,000  
PEPIP - \$1,000,000,000 excess of \$500,000

Liability: JPA Retained Limit - \$295,000 over member deductible of \$5,000  
Genesis - \$700,000 excess of \$300,000  
CSAC-EIA - \$24,000,000 excess of \$1,000,000

Crime: JPA Retained Limit - \$4,000 over member deductible of \$1,000  
National Union Fire Insurance Co. of Pittsburgh, PA  
\$1,000,000 excess of \$5,000

All limits are on a per occurrence basis.

**D. Reporting Entity**

The Authority's reporting entity includes all activities (operations of its officers and board of directors as they relate to the Authority) considered to be part of (controlled by or dependent on) the Authority. This includes financial activity relating to all of the membership years of the Authority. In determining its reporting entity, the Authority considered all governmental units that were members since inception. The criteria did not require the inclusion of these entities in the financial statements principally because the Authority does not exercise oversight responsibility over any members.

**E. Basis of Accounting**

These statements are prepared on 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 received, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements. Since the Authority discounts claims liabilities, the pool considers anticipated investment income in determining if a premium deficiency exists.

**F. Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, cash and cash equivalents include all checking and savings accounts and cash in the county treasury.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**G. Receivables**

Deductibles are paid by the Authority on behalf of each member when claims are paid. Members are charged for these deductibles on an annual basis. All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2014 and 2013, the total member receivable was considered collectible.

**H. Investment in Pooled Funds**

The Authority records cash with the Santa Clara County Treasurer at fair value. The effect of recording investments at fair market value is reflected as a net increase (decrease) in the fair value of investments on the Statements of Revenues, Expenses and Changes in Net Position.

**I. Unpaid Claim Liabilities (Claims Payable, Claims Incurred But Not Reported)**

Claims liabilities are established based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance 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 coverages such as general liability.

Claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

**J. Operating and Nonoperating Revenues**

Operating revenues result from exchange transactions associated with the principal activity of the organization. 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. Operating revenues is comprised of premium contributions, administration income and related fees and assessments which are an integral part of the operations. All other revenues, including investment income, are classified as nonoperating.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**K. Contribution Income**

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.

Member contributions are based upon each member's average daily attendance, exposure, total insured value (TIV), and claims experience. The allocation shall be actuarially sound. Member contributions are recognized as revenues in the period for which insurance protection is provided. Each year, the Authority evaluates the pool's financial risk position, defined as contributions less expenses, claims reserves, and IBNRs. If the JPA's Board of Directors determines that the insurance funds, including anticipated investment income, for a program are insufficient to pay losses, the JPA may impose a supplemental assessment on all participating members. Supplemental assessments are recognized as income in the period assessed.

**L. 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 particularly susceptible to significant change in the near term are described elsewhere in this report.

**M. Income Taxes**

The Authority's income is exempt from federal income taxes under Internal Revenue Service Section 115, which excludes income derived from the exercise of any essential governmental function and accruing to a state political subdivision.

**2. CASH AND CASH EQUIVALENTS**

Cash consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Cash with County Treasury	\$ 3,695,666	\$ 3,679,600
Cash with Carl Warren	43,054	155,797
Cash with Bank of America	<u>671,227</u>	<u>242,508</u>
Total Cash and Cash Equivalents	<u>\$ 4,409,947</u>	<u>\$ 4,077,905</u>

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**A. Investment in County Treasury**

The Authority is considered to be an involuntary participant in an external investment pool as the Authority is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The Authority's investment in the pool is reported in the accounting financial statements at amortized cost which approximates fair value. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**B. Cash with Carl Warren**

Carl Warren holds an amount in trust for SBASIA. This amount is used to pay claims for one month then is reimbursed by SBASIA.

**C. Cash in Bank**

Cash balances held in banks are fully insured up to \$250,000 by the Federal Depository Insurance Corporation. The excess over the insured amount 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.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**3. UNPAID CLAIM AND CLAIM 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 claims adjustment expenses. The following represents changes in liabilities for the Authority during the fiscal years ended June 30:

	Property / Liability	
	2014	2013
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 2,532,407	\$ 1,894,771
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	911,000	898,000
Changes in provision for insured events of prior fiscal years	(598,677)	288,732
Total incurred claims and claim adjustment expenses	312,323	1,186,732
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	51,204	78,159
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	529,412	470,937
Total payments	580,616	549,096
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 2,264,114	\$ 2,532,407
<u>Components</u>		
Reserve for Open Claims	\$ 275,634	\$ 927,829
Claims Incurred But Not Reported (IBNR)	1,712,480	1,427,577
ULAE	276,000	177,000
Total Claim Liabilities	\$ 2,264,114	\$ 2,532,407
Current Portion	\$ 650,000	\$ 600,000
Long Term Portion	1,614,114	1,932,407
Total Claim Liabilities	\$ 2,264,114	\$ 2,532,407

At June 30, 2014 and 2013, \$2,264,114 and \$2,710,580 of unpaid claims and claim adjustment expenses were presented at their net present value of \$2,264,114 and \$2,532,407, respectively. These claims were discounted at an annual rate of 0% and 3% respectively.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

**4. JOINT VENTURE**

The South Bay Area Schools Insurance Authority participates in a joint venture under a Joint Powers Agreement (JPA) with California State Association of Counties Excess Insurance Authority (CSAC-EIA). The relationship is such that CSAC-EIA is not a component unit of SBASIA for financial reporting purposes. The audited financial statements for CSAC-EIA can be obtained from their administrators.

The most recent available information for CSAC-EIA obtained from the financial statements is as follows:

<b>A. <u>Entity</u></b>	<u>CSAC-EIA</u>
<b>B. <u>Purpose</u></b>	To provide excess liability insurance coverage
<b>C. <u>Participants</u></b>	Statewide entities
<b>D. <u>Governing Board</u></b>	Consists of elected representatives of members by region
<b>E. <u>Condensed Financial Information</u></b>	<u>June 30, 2013*</u>
Total Assets	<u>\$ 588,152,525</u>
Total Liabilities	469,537,129
Net Position (Deficit)	<u>118,615,396</u>
Total Liabilities and Net Position	<u>\$ 588,152,525</u>
Total Revenues	\$ 538,894,700
Total Expenses	<u>(525,831,124)</u>
Net Income (Loss)	<u>\$ 13,063,576</u>
<u>Member Agency's Share of Net Assets</u>	**

\* Most recent available

\*\* Has not been calculated.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2014 AND 2013**

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**5. SUBSEQUENT EVENTS**

The Authority's management evaluated its June 30, 2014 financial statements for subsequent events through December 2, 2014, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**CLAIMS DEVELOPMENT INFORMATION  
PROPERTY/ LIABILITY**

**JUNE 30, 2014**

	Fiscal and Policy Year Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
1. Premiums and Investment Revenue										
Earned	\$ 1,690,000	\$ 1,914,000	\$ 2,100,000	\$ 2,369,000	\$ 2,415,828	\$ 3,069,491	\$ 3,288,291	\$ 3,360,090	\$ 2,996,714	\$ 3,152,204
Ceded	956,000	1,077,000	1,170,000	1,330,000	1,476,992	1,932,528	2,113,183	2,182,455	1,902,643	2,032,244
Net earned	734,000	837,000	930,000	1,039,000	938,836	1,136,963	1,175,108	1,177,635	1,094,071	1,119,960
2. Unallocated expenses	214,045	276,746	188,408	183,988	1,055,327	277,544	408,405	481,326	296,575	358,976
3. Estimated incurred claims and expense, end of policy year										
Incurred	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000
4. Paid (cumulative) as of:										
End of policy year	55,000	76,000	152,000	101,000	39,991	66,178	57,905	2,774	78,159	51,204
One year later	252,000	376,000	285,000	645,850	492,697	94,630	43,973	17,145	314,967	
Two years later	263,000	439,000	269,359	785,260	670,779	95,753	117,490	381,979		
Three years later	286,000	604,777	397,559	837,211	816,169	226,314	64,671			
Four years later	313,366	652,772	407,914	998,225	1,012,744	242,183				
Five years later	476,334	703,195	423,245	1,011,343	1,031,495					
Six years later	476,334	904,271	431,671	1,016,343						
Seven Years Later	466,630	947,463	432,358							
Eight Years Later	466,640	959,381								
Nine Years Later	466,640									
5. Reestimated ceded claims and expenses:	724,455	806,006	-	3629102	223079	-	-	-	-	-
6. Reestimated net incurred claims and expenses:										
End of policy year	796,000	302,000	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000
One year later	366,000	57,000	450,000	1,662,939	720,000	850,000	590,000	864,000	931,000	
Two years later	360,000	44,000	770,200	1,140,000	865,804	244,514	805,891	627,023		
Three years later	355,000	853,605	582,300	1,077,831	927,398	253,278	183,506			
Four years later	353,007	827,510	582,300	1,096,000	1,038,125	258,113				
Five years later	476,334	822,754	439,300	1,096,000	1,037,189					
Six years later	476,334	982,781	450,687	1,079,880						
Seven years later	466,630	969,926	456,300							
Eight Years Later	466,640	998,684								
Nine Years Later	466,640									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (329,360)	\$ 696,684	\$ 99,300	\$ 129,880	\$ 135,839	\$ (591,887)	\$ (791,494)	\$ (236,977)	\$ 33,000	\$ -

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION**

**JUNE 30, 2014**

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The table illustrates the Authority'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 a) gross earned contributions revenue and investment revenue, b) the amount of contributions revenue ceded to reinsurers, and c) the amount of net earned contributions revenue and investment revenue.
2. This line shows the total of each policy year's a) gross incurred claims and allocated claim adjustment expense (both paid and accrued); b) the loss assumed by excess insurers or reinsurers, and c) the net amount of incurred claims and allocated claim adjustment expenses as originally reported at the end of the year.
3. This line shows the Authority's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the year.
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, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated incurred claim amount to the amount originally established (line 3) and shows whether this later estimate of claims cost is greater or less than originally estimated.

## **SUPPLEMENTARY INFORMATION**

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**GRAPHICAL SUMMARY OF CLAIMS**

**JUNE 30, 2014**

