

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

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

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2016 AND 2015**

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**BOARD OF DIRECTORS**

**JUNE 30, 2016**

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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
Santa Clara Unified School District	Mark Allgire	Treasurer
Berryessa Union School District	Phuong Le	Member at Large
Lakeside Joint School District	Lisa Gonzales	Member
Los Altos School District	Randy Kenyon	Member
Los Gatos-Saratoga Joint Union HS District	Greg Medici	Member
Metropolitan Education District	Marie dela Cruz	Member
Milpitas Unified School District	Wendy Zhang	Member
Mountain View-Los Altos Union HS District	Mike Mathiesen	Member
Mountain View-Whisman School District	Robert Clark	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, 2016 and 2015, 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, 2016 and 2015 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 November 29, 2016 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  
November 29, 2016

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

# **SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

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

**JUNE 30, 2016**

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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, 2016. 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 \$3,366,582, a decrease of 2.4 percent over the prior year.
- Total interest income was \$26,464, an increase of 53.8 percent from the prior year.
- Total expenses were \$3,221,004, a decrease of 11.2 percent from the prior year.
- Total assets increased by 17.6 percent to \$6,649,164.
- Total liabilities increased by 26.8 percent to \$3,894,431.
- Total net position (equity) increased by 6.7 percent to \$2,754,733.

### **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**

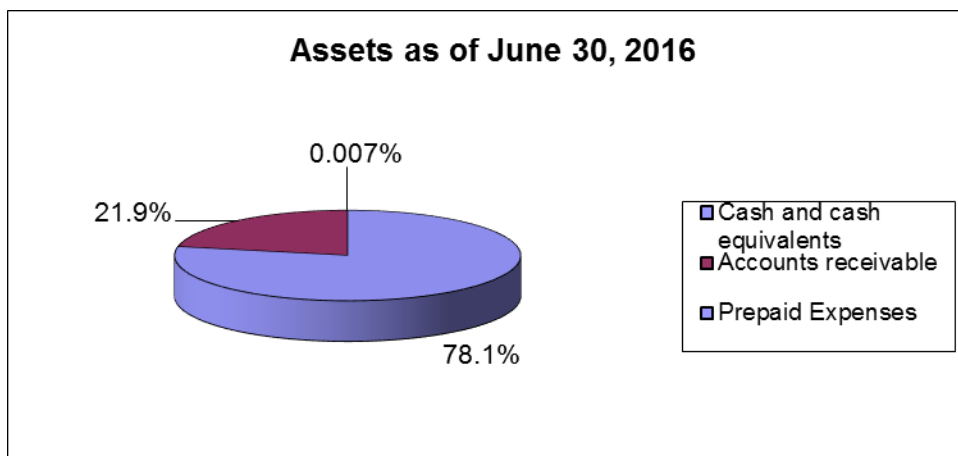
**JUNE 30, 2016**

**Condensed Statement of Net Position**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>% Change June 30, 2015 to June 30, 2016</u>	<u>June 30, 2014</u>	<u>% Change June 30, 2014 to June 30, 2015</u>
<b>Assets</b>					
Total Assets	<u>6,649,164</u>	<u>5,653,861</u>	17.60%	<u>5,012,294</u>	12.80%
<b>Liabilities</b>					
Total Current Liabilities	1,369,618	659,845	107.57%	653,479	0.97%
Total Long Term Liabilities	<u>2,524,813</u>	<u>2,411,325</u>	4.71%	<u>1,614,114</u>	49.39%
<b>Total Liabilities</b>	<u>3,894,431</u>	<u>3,071,170</u>	26.81%	<u>2,267,593</u>	35.44%
<b>Net position</b>					
Net position	<u>\$ 2,754,733</u>	<u>\$ 2,582,691</u>	6.66%	<u>2,744,701</u>	-5.90%

**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 11.68 percent from prior year, from \$4,650,221 to \$5,193,482.

Accounts receivable has increased by 45 percent from prior year, from \$1,003,640 to \$1,455,232.

Prepaid expenses have increased to \$450 from \$0 in prior year.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

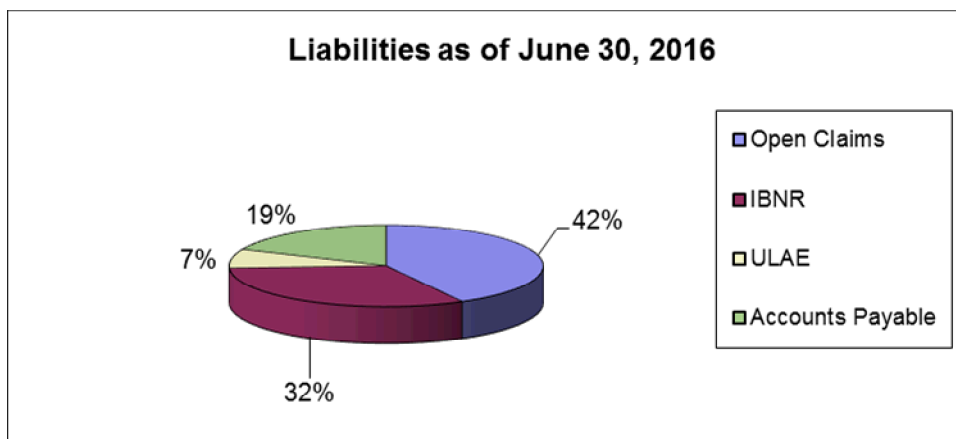
**JUNE 30, 2016**

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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, 2016 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 \$3,894,431:



Open claims have increased by 158.16 percent from the prior year, from \$633,574 to \$1,635,628. IBNR has decreased by 42.14 percent over prior year, from \$2,160,751 to \$1,250,185. ULAE has increased by 8.24 percent over prior year, from \$267,000 to \$289,000. Accounts payable has increased by 7,209% over prior year, from \$9,845 to \$719,618.

**Net position**

The net position as of June 30, 2016 was \$2,754,733, an increase of \$172,042. 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, 2016**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>Change June 30, 2015 to June 30, 2016</b>	<b>June 30, 2014</b>	<b>Change June 30, 2014 to June 30, 2015</b>
Contingency Reserve	\$ 2,500,000	\$ 2,500,000	\$ -	\$ 2,500,000	\$ -
Loss Control	100,000	100,000	-	100,000	-
Undesignated	154,733	(17,309)	172,042	144,701	(162,010)
Prior Period Adjustment	-	-	-	-	-
<b>Total Net Position</b>	<b>\$ 2,754,733</b>	<b>\$ 2,582,691</b>	<b>\$ 172,042</b>	<b>\$ 2,744,701</b>	<b>\$ 162,010</b>

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

	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>% Change June 30, 2015 to June 30, 2016</b>	<b>June 30, 2014</b>	<b>% Change June 30, 2014 to June 30, 2015</b>
<b>Revenue</b>					
Total Revenues	\$ 3,393,046	\$ 3,466,746	-2.1%	\$ 3,152,204	10%
<b>Expenses</b>					
Total Expenses	3,221,004	3,628,756	-11.2%	2,703,539	34.2%
<b>Net Income</b>	<b>\$ 172,042</b>	<b>\$ (162,010)</b>	<b>206.2%</b>	<b>\$ 448,665</b>	<b>-136.1%</b>

**Revenue and Expenses**

Revenues consist primarily of member contributions, with interest income only representing about .80 percent of the total revenues. The revenues exceeded expenses by \$172,042. Total Operating Revenues decreased by 2.4 percent from prior year's revenues and Total Operating Expenses decreased by 11.2 percent.

Claims expenses decreased by 38.2% 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 payments for claims. This year the amount paid was \$507,956. The second component is the change in reserves established on known claims. This year the reserves increased by \$1,002,054. The third component is the change in accounts receivable. This year the receivables increased by \$451,592. 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 a decrease of \$910,566. The total costs of claims for the year ending June 30, 2016 was \$599,444.

**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 \$10,000 for Liability and 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, 2016**

<b>LIABILITY</b>	<b>PROPERTY</b>	<b>CRIME</b>
<p align="center"><i>Schools Excess Liability Fund (SELF)</i></p> <p align="center">EXCESS LIABILITY</p> <p align="center">\$50,000,000 EXCESS OF \$5,000,000</p>	<p align="center"><i>Public Entity Property Insurance Program (PEPIP)</i></p> <p align="center">\$1,000,000,000 EXCESS OF \$500,000</p>	<p align="center"><i>National Union Fire Insurance Company 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 align="center"><i>California State Association of Counties-Excess Insurance Authority (CSAC-EIA)</i></p> <p align="center">GENERAL LIABILITY PROGRAM I</p> <p align="center">\$4,750,000 EXCESS OF \$250,000</p>	<p align="center">INCLUDES BOILER &amp; MACHINERY \$100,000,000 REPLACEMENT COST</p>	
<p align="center">SBASIA Shared Risk \$240,000 over Deductible</p>	<p align="center">SBASIA Shared Risk* \$490,000 over Deductible</p>	<p align="center">SBASIA Shared Risk \$4,000 over Deductible</p>
<p align="center">District Deductible \$10,000</p>	<p align="center">District Deductible \$10,000</p>	<p align="center">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, 2016**

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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, 2016 AND 2015**

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,193,482	\$ 4,650,221
Accounts receivable	1,455,232	1,003,640
Prepaid Expenses	450	-
<b>Total Assets</b>	<u>6,649,164</u>	<u>5,653,861</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	719,618	9,845
Current portion of claim liabilities	<u>650,000</u>	<u>650,000</u>
<b>Total Current Liabilities</b>	<u>1,369,618</u>	<u>659,845</u>
<b>Noncurrent Liabilities</b>		
Claim liabilities	<u>2,524,813</u>	<u>2,411,325</u>
<b>Total Liabilities</b>	<u>3,894,431</u>	<u>3,071,170</u>
<b>NET POSITION</b>		
Net Position	<u>\$ 2,754,733</u>	<u>\$ 2,582,691</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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>		
Contributions	\$ 3,366,582	\$ 3,449,536
 <b>Operating Expenses</b>		
Insurance premiums	2,273,316	2,413,291
Claims expense	599,444	969,492
Contract administration	228,670	206,967
Other operating expenses	119,574	39,006
Total Operating Expenses	3,221,004	3,628,756
Operating Income/(Loss)	145,578	(179,220)
<b>Nonoperating Income</b>		
Interest income	26,464	17,210
<b>Change in Net Assets</b>	172,042	(162,010)
Beginning position	2,582,691	2,744,701
Ending Net Position	\$ 2,754,733	\$ 2,582,691

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



**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**STATEMENTS OF CASH FLOWS**

**JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Contributions received	\$ 2,914,990	\$ 3,048,243
Claims and claim adjustment expenses paid	(485,956)	(172,281)
Insurance premiums paid	(2,273,316)	(2,413,291)
General and administrative expenses paid	361,079	(239,607)
Net Cash Flows Provided (Used) by Operating Activities	516,797	223,064
 <b>Cash Flows From Investing Activities</b>		
Interest income received	26,464	17,210
Net Cash Flows Provided by Investing Activities	26,464	17,210
 Beginning Cash and Cash Equivalents	4,650,221	4,409,947
Ending Cash and Cash Equivalents	\$ 5,193,482	\$ 4,650,221
 <b>Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities</b>		
Operating income (Loss)	\$ 145,578	\$ (179,220)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
(Increase) decrease in:		
Accounts receivable	(451,592)	(401,293)
Prepaid Expenses	(450)	
Increase (decrease) in:		
Accounts payable	709,773	6,366
Claims liabilities	113,488	797,211
Net Cash Provided (Used) by Operating Activities	\$ 516,797	\$ 223,064

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

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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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, 2016 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, 2016 AND 2015**

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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 - \$240,000 over member deductible of \$10,000  
CSAC EIA - \$4,750,000 excess of \$250,000  
SELF - \$50,000,000 excess of \$5,000,000

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, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 AND 2015**

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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>2016</u>	<u>2015</u>
Cash with County Treasury	\$ 3,734,760	\$ 3,711,409
Cash with Carl Warren	1,004,162	8,786
Cash with Bank of America	451,396	930,026
Cash with Wells Fargo Bank	3,164	-
Total Cash and Cash Equivalents	<u>\$ 5,193,482</u>	<u>\$ 4,650,221</u>

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

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**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

**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.

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized 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. Investments' fair value measurements at June 30, 2016 are as shown below:

Description	Level 1	Level 2	Level 3	Total
Santa Clara County Treasury	<u>2,531,278</u>	<u>1,203,482</u>	<u>-</u>	<u>3,734,760</u>

**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, 2016 AND 2015**

**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:

	2016	2015
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 3,061,325	\$ 2,264,114
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	1,009,000	944,000
Changes in provision for insured events of prior fiscal years	(409,556)	25,492
Total incurred claims and claim adjustment expenses	599,444	969,492
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	(114,784)	13,756
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	600,740	158,525
Total payments	485,956	172,281
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 3,174,813	\$ 3,061,325
<u>Components</u>		
Reserve for Open Claims	\$ 1,635,628	\$ 633,574
Claims Incurred But Not Reported (IBNR)	1,250,185	2,160,751
ULAE	289,000	267,000
Total Claim Liabilities	\$ 3,174,813	\$ 3,061,325
Current Portion	\$ 650,000	\$ 650,000
Long Term Portion	2,524,813	2,411,325
Total Claim Liabilities	\$ 3,174,813	\$ 3,061,325

At June 30, 2016 and 2015, unpaid claims and claim adjustment expenses were presented at \$3,174,813 and \$3,061,325. These claims were not discounted.

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

**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, 2015*</u>
Total Assets	\$ 642,361,922
Deferred Outflows Of Resources	<u>587,253</u>
Total Liabilities	529,697,449
Deferred Inflows Of Resources	<u>845,081</u>
Net Position (Deficit)	<u>112,406,645</u>
Total Liabilities and Net Position	<u>\$ 642,949,175</u>
Total Revenues	\$ 621,366,157
Total Expenses	<u>(619,827,126)</u>
Net Income (Loss)	<u>\$ 1,539,031</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, 2016 AND 2015**

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**5. SUBSEQUENT EVENTS**

The Authority's management evaluated its June 30, 2016 financial statements for subsequent events through November 29, 2016, 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, 2016**

	Fiscal and Policy Year Ended June 30,									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Premiums and Investment Revenue										
Earned	\$ 2,100,000	\$ 2,369,000	\$ 2,415,828	\$ 3,069,491	\$ 3,288,291	\$ 3,360,090	\$ 2,996,714	\$ 3,152,204	\$ 3,466,746	\$ 3,393,046
Ceded	1,170,000	1,330,000	1,476,992	1,932,528	2,113,183	2,182,455	1,902,643	2,032,244	2,413,291	2,273,316
Net earned	930,000	1,039,000	938,836	1,136,963	1,175,108	1,177,635	1,094,071	1,119,960	1,053,455	1,119,730
2. Unallocated expenses	188,408	183,988	1,055,327	277,544	408,405	481,326	296,575	358,976	245,973	348,244
3. Estimated incurred claims and expense, end of policy year										
Incurred	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000	944,000	1,009,000
Ceded	-									
Net Incurred	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000	944,000	1,009,000
4. Paid (cumulative) as of:										
End of policy year	152,000	101,000	39,991	66,178	57,905	2,774	78,159	51,204	13,756	(114,784)
One year later	285,000	645,850	492,697	94,630	43,973	17,145	314,967	96,585	192,916	
Two years later	269,359	785,260	670,779	95,753	117,490	381,979	477,002	214,871		
Three years later	397,559	837,211	816,169	226,314	64,671	405,946	677,924			
Four years later	407,914	998,225	1,012,744	242,183	68,644	380,067				
Five years later	423,245	1,011,343	1,031,495	259,754	575,569					
Six years later	431,671	1,016,343	1,036,495	229,754						
Seven Years Later	432,358	1,016,343	1,274,814							
Eight Years Later	435,439	988,706								
Nine Years Later	440,439									
5. Reestimated ceded claims and expenses:	-	3,629,102	-	7,875,825	9,487,242	-	-	-	-	-
6. Reestimated net incurred claims and expenses:										
End of policy year	357,000	950,000	901,350	850,000	975,000	864,000	898,000	911,000	944,000	1,009,000
One year later	450,000	1,662,939	720,000	850,000	590,000	864,000	931,000	911,000	1,127,000	
Two years later	770,200	1,140,000	865,804	244,514	805,891	627,023	931,000	592,071		
Three years later	582,300	1,077,831	927,398	253,278	183,506	1,227,023	933,982			
Four years later	582,300	1,096,000	1,038,125	258,113	783,506	432,174				
Five years later	439,300	1,096,000	1,037,189	258,113	604,202					
Six years later	450,687	1,079,880	1,037,189	263,520						
Seven years later	456,300	1,069,951	1,276,204							
Eight Years Later	456,300	1,085,951								
Nine Years Later	440,439									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 83,439	\$ 135,951	\$ 374,854	\$ (586,480)	\$ (370,798)	\$ (431,826)	\$ 35,982	\$ (318,929)	\$ 183,000	\$ -

**SOUTH BAY AREA SCHOOLS INSURANCE AUTHORITY**

**NOTES TO SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION**

**JUNE 30, 2016**

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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, 2016

