

**CALIFORNIA INSURANCE  
POOL AUTHORITY**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2014**

**CALIFORNIA INSURANCE POOL AUTHORITY  
(A Joint Powers Authority)**

**NEWPORT BEACH, CALIFORNIA**

**JUNE 30, 2014**

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**BOARD OF DIRECTORS**

<u>REPRESENTATIVE</u>	<u>MEMBER</u>	<u>OFFICE</u>
Barbara Salvini	City of Laguna Beach	President
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Cyndie Sanders Marshal	City of Westminster	Member
Rod C. Hill	City of Whittier	Member

**ADMINISTRATION**

Janet Kiser	Kiser & Company	General Manager
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**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

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**JUNE 30, 2014**

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
California Insurance Pool Authority  
Newport Beach, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the California Insurance Pool Authority (Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair 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 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2014, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, reconciliation of claims liabilities by type of coverage on page 24 and 25, and claims development information on pages 26 through 30 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statement of net position and combining statements of revenues, expenses, and changes in fund net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Prior-Year Comparative Information*

We have previously audited the 2013 financial statements of the Authority, and we expressed an unmodified audit opinion on the financial statements in our report dated January 27, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority's internal control over financial reporting and compliance.



Laguna Hills, California

November 14, 2014

**CALIFORNIA INSURANCE POOL AUTHORITY  
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Description of the Basic Financial Statements**

CIPA's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. A Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are maintained along with the Notes to Financial Statements to clarify unique accounting policies. Separate governmental enterprise funds are operated for the Liability and Workers' Compensation programs. The assets, liabilities, revenues, and expenses are reported on a full accrual basis.

The Statement of Net Position provides information on all CIPA program assets and liabilities, with the difference reported as Net Position. Net Position may be an indicator of the overall pool financial changes across years. The Statement of Revenues, Expenses and Changes in Net Position presents information showing total revenues versus total expenses and the resulting effect on Net Position.

**2013 to 2014 Analysis of Financial Position and Results of Operations**

The overall net position increased 4%. The Liability Program net position increased 3% and the Workers' Compensation net position increasing 8%. The following highlights the major changes:

- Cash and Cash Equivalents declined 13%. Funds were deposited with an investment advisor in May 2013. The advisor continued to invest the deposited funds in the beginning of the 2013-14 fiscal year. Cash and Cash Equivalents declined as Short Term Investments increased.
- A portion of the 2012-13 assessments were collected prior to June 30, 2013. The 2013-14 assessments were not collected until July 1, 2014. The collection of assessments after June 30, 2014 increased the Current Receivables due.
- Short term investments increased due to increase in investments of more than three months and an improvement in the bond market.
- Noncurrent Receivables decreased due to reduction in assessments as calculated by the actuary.
- The 2012-13 Dividends were paid prior to June 30, 2013. The 2013-14 Dividends were not paid until after July 1, 2014 and thus the full amount of Dividends Payable is reflected in the current report.
- The Current Portion of Unpaid Claims and Claim Adjustment Expenses declined as calculated by the actuary. The reduction was primarily in the Liability Program. The prior outstanding balance included a large claim that was paid during the year. This increased the claim payments and reduced the unpaid claims.



**CALIFORNIA INSURANCE POOL AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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- Non-Current Unpaid Claims and Claim Adjustment Expenses increased overall 11% as projected by the actuary, with a 26% increase in the Liability Program and 2% increase in the Workers' Compensation Program.
- The Contributions-Prior Year Assessments improved from the prior year primarily due to the closure of several large Workers' Compensation claims resulting in an overall reduction in estimated future costs and assessments related to those claims. There was a slight increase in both the Liability current year assessments and non-current assessments.
- Claims Paid fluctuates from year to year. A large liability claim was paid in 2013-14. Additionally, CIPA assumed the management of one claim, including the payment of expenses above the Member's SIR instead of reimbursing the Member after the claim is resolved.
- The current year Provision for Loss Reserves reflects the change in liability as calculated by the actuary. The overall change was an increase of \$154,706. There was an increase of \$220,692 in the Worker' Compensation Program and a reduction in the Liability Program of \$65,986.
- CIPA invested funds with an advisor in May 2013. The bond market declined significantly during June of 2013. The market has improved resulting in an increase in the investments.

**CALIFORNIA INSURANCE POOL AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**CONDENSED FINANCIAL INFORMATION**  
**Statement of Net Position**  
**For the Years Ended June 30, 2013 and 2014**

	<u>2014</u>	<u>2013</u>	<u>2013-2014</u> <u>% Change</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 4,532,756	\$ 5,206,835	-13%
Receivables	328,236	163,417	101%
Short-term investments	6,729,018	4,969,355	35%
Total Current Assets	<u>11,590,010</u>	<u>10,339,607</u>	12%
Noncurrent Assets			
Receivables	1,941,590	2,152,449	-10%
Investments	21,795,087	21,589,469	1%
Total Non-Current Assets	<u>23,736,677</u>	<u>23,741,918</u>	
Total Assets	<u>35,326,687</u>	<u>34,081,525</u>	4%
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	40,564	65,042	-38%
Due members	135,091	140,418	-4%
Dividends payable	482,930	-	100%
Claims deposit	8,625	-	100%
Current portion of unpaid claims and claim adjustment expenses	1,041,784	2,384,676	-56%
Total Current Liabilities	<u>1,708,994</u>	<u>2,590,136</u>	-34%
Unpaid claims and claim adjustment expenses, noncurrent portion	15,538,512	14,040,914	11%
Total Liabilities	<u>17,247,506</u>	<u>16,631,050</u>	4%
<b>NET POSITION</b>			
Net Position-unrestricted	18,079,181	17,450,475	4%
Total Net Position	<u>\$ 18,079,181</u>	<u>\$ 17,450,475</u>	4%

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>	<u>2013-2014</u> <u>% Change</u>
<b>Operating Revenues:</b>			
Contributions	\$ 7,503,268	\$ 6,950,144	8%
Contributions-prior year assessments	98,737	(268,392)	137%
Excess insurance	(1,635,566)	(1,555,324)	-5%
Joint purchase insurance	(2,051,690)	(1,860,097)	-10%
Other	1,544	250	518%
Total Operating Revenues	<u>3,916,293</u>	<u>3,266,581</u>	20%
<b>Operating Expenses:</b>			
Claims paid	2,703,992	848,051	219%
Provision (credit) for loss reserves	154,706	(230,296)	167%
Litigation management services	-	59,324	-100%
Risk management services	214,449	211,494	1%
Administration expenses	121,389	96,923	25%
Dividends	482,930	421,549	15%
Total Operating Expenses	<u>3,677,466</u>	<u>1,407,045</u>	161%
Operating Income	238,827	1,859,536	-87%
<b>Nonoperating Revenues:</b>			
Investment earnings net of fees	<u>389,879</u>	<u>(212,235)</u>	284%
<b>Increase in Net Position</b>	628,706	1,647,301	-62%
<b>Net Position, Beginning of Year</b>	<u>17,450,475</u>	<u>15,803,174</u>	10%
<b>Net Position, End of Year</b>	<u>\$ 18,079,181</u>	<u>\$ 17,450,475</u>	4%

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

**FINANCIAL INFORMATION BY FUND**  
**Statement of Net Position**  
**For the Years Ended June 30, 2013 and 2014**

	<b>LIABILITY</b>		
	<u>2014</u>	<u>2013</u>	<u>2013-2014</u> <u>% Change</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 2,079,298	\$ 2,813,299	-26%
Receivables	240,446	25,145	856%
Short-term investments	4,309,263	3,182,131	35%
Total Current Assets	<u>6,629,007</u>	<u>6,020,575</u>	10%
Noncurrent Assets			
Receivables	1,318,471	1,250,706	5%
Investments	13,956,172	13,824,835	1%
Total Noncurrent Assets	<u>15,274,643</u>	<u>15,075,541</u>	
Total Assets	<u>21,903,650</u>	<u>21,096,116</u>	4%
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	19,531	8,570	128%
Due members	5,264	-	100%
Dividends payable	482,930	-	100%
Claims deposit	8,625	-	100%
Current portion of unpaid claims and claim adjustment expenses	<u>510,271</u>	<u>1,865,961</u>	-73%
Total Current Liabilities	<u>1,026,621</u>	<u>1,874,531</u>	-45%
Unpaid claims and claim adjustment expenses, noncurrent portion	<u>6,160,376</u>	<u>4,870,672</u>	26%
Total Liabilities	<u>7,186,997</u>	<u>6,745,203</u>	7%
<b>NET POSITION</b>			
Net Position-unrestricted	<u>14,716,653</u>	<u>14,350,913</u>	3%
Total Net Position	<u>\$ 14,716,653</u>	<u>\$ 14,350,913</u>	3%

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014**

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**Statement of Net Position**  
**For the Years Ended June 30, 2013 and 2014**

**WORKERS' COMPENSATION**

	<u>2014</u>	<u>2013</u>	<u>2013-2014</u> <u>% Change</u>
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 2,453,458	\$ 2,393,536	3%
Receivables	87,790	138,272	-37%
Short-term investments	2,419,755	1,787,224	35%
Total Current Assets	<u>4,961,003</u>	<u>4,319,032</u>	15%
Noncurrent Assets			
Receivables	623,119	901,743	-31%
Investments	7,838,915	7,764,634	1%
Total Non-current Assets	<u>8,462,034</u>	<u>8,666,377</u>	
Total Assets	<u>13,423,037</u>	<u>12,985,409</u>	3%
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	21,033	56,472	-63%
Due members	129,827	140,418	-8%
Current portion of unpaid claims and claim adjustment expenses	531,513	518,715	2%
Total Current Liabilities	<u>682,373</u>	<u>715,605</u>	-5%
Unpaid claims and claim adjustment expenses, noncurrent portion	9,378,136	9,170,242	2%
Total Liabilities	<u>10,060,509</u>	<u>9,885,847</u>	2%
<b>NET POSITION</b>			
Net Position-unrestricted	3,362,528	3,099,562	8%
Total Net Position	<u>\$ 3,362,528</u>	<u>\$ 3,099,562</u>	8%

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**STATEMENTS OF NET POSITION**  
**(With Comparative Totals for the Year Ended June 30, 2013)**

**JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 4,532,756	\$ 5,206,835
Receivables	328,236	163,417
Short-term investments	6,729,018	4,969,355
Total Current Assets	<u>11,590,010</u>	<u>10,339,607</u>
Noncurrent Assets		
Receivables	1,941,590	2,152,449
Investments	21,795,087	21,589,469
Total Noncurrent Assets	<u>23,736,677</u>	<u>23,741,918</u>
Total Assets	<u>35,326,687</u>	<u>34,081,525</u>
 <b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	40,564	65,042
Due members	135,091	140,418
Dividends payable	482,930	-
Claims deposits	8,625	-
Current portion of unpaid claims and claim adjustment expenses	1,041,784	2,384,676
Total Current Liabilities	<u>1,708,994</u>	<u>2,590,136</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	15,538,512	14,040,914
Total Liabilities	<u>17,247,506</u>	<u>16,631,050</u>
 <b>NET POSITION</b>		
Net Position - unrestricted	18,079,181	17,450,475
Total Net Position	<u>\$ 18,079,181</u>	<u>\$ 17,450,475</u>

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

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**(With Comparative Totals for the Year Ended June 30, 2013)**

**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Contributions	\$ 7,503,268	\$ 6,950,144
Contributions-prior year assessments	98,737	(268,392)
Excess insurance	(1,635,566)	(1,555,324)
Joint purchase insurance	(2,051,690)	(1,860,097)
	<u>3,914,749</u>	<u>3,266,331</u>
Other	1,544	250
Total Operating Revenues	<u>3,916,293</u>	<u>3,266,581</u>
<b>OPERATING EXPENSES</b>		
Claims paid	2,703,992	848,051
Provision (credit) for loss reserves	154,706	(230,296)
Litigation management	-	59,324
Risk management services	214,449	211,494
Administration expenses	121,389	96,923
Dividends	482,930	421,549
	<u>3,677,466</u>	<u>1,407,045</u>
Total Operating Expenses	<u>3,677,466</u>	<u>1,407,045</u>
Operating Income	238,827	1,859,536
<b>NONOPERATING REVENUES</b>		
Investment earnings net of fees	<u>389,879</u>	<u>(212,235)</u>
<b>INCREASE IN NET POSITION</b>	628,706	1,647,301
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>17,450,475</u>	<u>15,803,174</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 18,079,181</u>	<u>\$ 17,450,475</u>

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

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**STATEMENTS OF CASH FLOWS**  
**(With Comparative Totals for the Year Ended June 30, 2013)**

**FOR THE YEARS ENDED JUNE 30, 2014**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members and others	\$ 7,649,589	\$ 7,198,750
Cash paid for claims and settlements	(2,695,367)	(848,051)
Cash paid for insurance	(3,687,256)	(3,415,421)
Cash paid to suppliers for goods and services	(360,316)	(433,269)
Cash paid to members	<u>(5,327)</u>	<u>(421,549)</u>
Net Cash Provided by Operating Activities	<u>901,323</u>	<u>2,080,460</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investment securities	(18,603,229)	(28,500,000)
Proceeds from maturities and sales of investment securities	16,637,948	1,693,459
Interest income	<u>389,879</u>	<u>45,523</u>
Net Cash Used by Investing Activities	<u>(1,575,402)</u>	<u>(26,761,018)</u>
 <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(674,079)	(24,680,558)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,206,835</u>	<u>29,887,393</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 4,532,756</u>	<u>\$ 5,206,835</u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH APPLIED TO OPERATING ACTIVITIES</b>		
Operating income	<u>\$ 238,827</u>	<u>\$ 1,859,536</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease in receivables	46,040	891,406
Decrease in accounts payable	(24,478)	(65,529)
Increase (decrease) in claims liabilities	154,706	(230,296)
Increase in claims deposits	8,625	-
Increase (decrease) in due members	<u>477,603</u>	<u>(374,657)</u>
Total Adjustments	<u>662,496</u>	<u>220,924</u>
Net Cash Provided by Operating Activities	<u>\$ 901,323</u>	<u>\$ 2,080,460</u>

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



**CALIFORNIA INSURANCE POOL AUTHORITY  
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General Description**

The California Insurance Pool Authority (CIPA) was formed in 1978, under a Joint Powers Agreement pursuant to the provisions of Chapter 5 (beginning with Section 6500) of Division 7 of Title I of the State of California Government Code. CIPA is to provide risk management by arranging and administering programs for the pooling of self-insured losses and to purchase excess insurance coverage for its members. At June 30, 2014, the membership included thirteen cities.

The municipal liability self-insurance coverage, including automobile liability, arranged by CIPA for the members, includes protection for personal injury, property damage, and errors and omissions. The annual premium paid by each member for the liability program is determined by the actuary for CIPA and approved by the Board of Directors. The liability program is comprised of:

1. Risk-sharing pool - covers members' losses for the difference between the members' self-insured retention (SIR) and \$2,000,000.
2. Insurance-purchasing pool - obtains excess insurance coverage from \$2,000,000 to \$42,000,000.
3. Costs of operations - includes administrative costs.

CIPA offers workers' compensation pooling with SIRs ranging between \$300,000 and \$750,000. CIPA pools members' losses for the difference between each city's SIR and \$3,000,000. The pooled premium is recommended by an actuary and approved by the Board. Effective July 1, 2003, the Board voted not to group purchase Excess Workers' Compensation. Group self-insurance was again approved by the Board effective July 1, 2004.

CIPA also provides a non-risk sharing insurance-purchasing pool for property, employee bonds, boiler/machinery coverage, and employment practices liability.

As of June 30, 2014, membership in CIPA was as follows:

City of Arcadia	City of Montclair
City of Brea	City of Orange
City of Buena Park	City of Tustin
City of Cypress	City of Westminster
City of Irvine	City of Whittier
City of Laguna Beach	City of Yorba Linda
City of La Habra	

***Admission***

Entities applying for membership must be approved by a majority vote of the Board Members present and voting.

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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***Withdrawal/Termination***

Members may withdraw from CIPA upon advance written notice subject to the participation agreement of each program. The effect of withdrawal (or termination), for the pooling programs, does not terminate the responsibility of the member to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

The agreement contains provisions that require any member to remain in the program for a minimum period of two years. Thereafter the member agency may withdraw by giving written notice to the Board or its designee, on or before the next succeeding March 1, of the intent to withdraw as of 12:01 a.m. on the next July 1.

**B. Description of Fund**

The accounting records of CIPA are maintained in an enterprise fund which is used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed through user charges.

**C. Reporting Entity**

CIPA reporting entity includes all activities (operations of its administration, officers, executive committee and board of directors) as they relate to CIPA. This includes financial activity relating to all of the membership years.

CIPA has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The criteria include, but are not limited to, whether the entity exercises fiscal accountability (which includes whether CIPA's governing body is substantially the same as a component unit's governing body, or if there is a financial benefit or burden relationship between CIPA and the component unit).

CIPA has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in these financial statements. In addition, CIPA is not aware of any entity that would exercise such oversight responsibility that would result in CIPA being considered a component unit of that entity. In determining its reporting entity, CIPA considered all governmental units that were members of CIPA since inception. The criteria did not require that inclusion of these entities in these financial statements principally because CIPA does not exercise fiscal accountability over any members.

**D. Basis of Accounting**

These statements are prepared on the accrual basis of accounting. Revenues from member contributions and interest from investments are recognized when earned. Expenses for vendor services are recognized when the services are provided. Expenses related to joint purchase premiums are recognized during the applicable policy period. Assessments and dividends are recognized during the fiscal year as calculated by the actuary. Workers' Compensation claim reimbursements are recognized during the fiscal year in which expenses were incurred. Liability claim reimbursements are recognized when claim expenses have been finalized.

Operating revenue includes member contribution and fees, which are an integral part of the operations and financing of the covered risks and activities. Nonoperating income includes activities that are not part of the core risk financing activities of the entity and investment income.

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**NOTES TO FINANCIAL STATEMENTS**  
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**E. New GASB Pronouncements**

**Adopted in the Current Year**

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Statement is effective for periods beginning after December 15, 2012. CIPA implemented this pronouncement, effective July 1, 2013.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement is effective for periods beginning after December 15, 2012. CIPA implemented this pronouncement, effective July 1, 2013.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The Statements is effective for periods beginning after June 15, 2013. CIPA implemented this pronouncement, effective July 1, 2013.

**Effective in Future Years**

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year. CIPA has not determined the effect on the financial statements.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The Statement is effective for periods beginning after December 15, 2013, or the 2014-2015 fiscal year. CIPA has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The Statement is effective for periods beginning after June 15, 2014, or the 2014-2015 fiscal year, to be applied simultaneously with the provisions of No. 68. CIPA has not determined the effect on the financial statements.

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**F. Cash and Cash Equivalents**

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

**G. Allowance for Doubtful Accounts**

Accounts receivable generally includes investment earnings on deposits and member assessments. Management has analyzed these accounts and believes all amounts are fully collectible.

**H. Investments**

CIPA records its investments at fair market value. Changes in fair market value are reported as revenue in the Statement of Revenues, Expenses and Changes in Net Position. Fair market values of investments have been determined using the safekeeping statements of the custodian based on quoted market prices. CIPA reported an unrealized loss in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, during the year ended June 30, 2014 in the amount of \$165,418. This loss is reported with other investment earnings as part of nonoperating revenues.

**I. Claims Liabilities**

CIPA establishes claim liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled. Up until June 30, 2000, CIPA provided a claims-made policy whereby coverage is triggered by the reporting of the loss to CIPA, irrespective of the date the loss was actually incurred. Subsequent to June 30, 2000, CIPA provides coverage on an occurrence basis. The estimated amount of aggregate excess insurance recoverable on unpaid claims is 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.

Claims 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. Unallocated Loss Adjustment Expenses**

Unallocated loss adjustment expenses (ULAE) are the indirect expenses to settle claims. These expenses are primarily administration and claims handling expenses.

Accounting standards require that ULAE be included in financial statements and that they be calculated by actuarial methods. CIPA has determined that there is no liability for ULAE.

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**K. Operating Revenues**

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

Operating revenue includes member contributions, related fees, and assessments, which are an integral part of the operations and financing of the covered risks and activities. Nonoperating income includes material activities that are not part of the core risk financing activities of the entity. Investment income is classified as nonoperating income.

**L. Contribution Income**

Member contributions are collected in advance and recognized as revenues in the period for which insurance protection is provided. If CIPA's Board of Directors determines that the insurance funds for a program, including anticipated investment income, 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, however, the assessments are paid to CIPA over a ten-year period.

**M. Excess Insurance**

Excess liability insurance is purchased above CIPA's self-insured retention of \$2,000,000. For claims that would be covered under CIPA's liability memorandum of coverage, but not covered by an excess carrier, CIPA remains responsible for an uncovered claim up to \$5,000,000.

**N. Income Taxes**

CIPA's income is exempt from federal and state income taxes under Internal Revenue Code Section 115 and the corresponding section of the California Revenue and Taxation Code.

**O. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

**P. Comparative Data**

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in the CIPA's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the CIPA's financial statements for the year ended June 30, 2013, from which this selected financial data was derived.

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**NOTE 2 - CASH AND INVESTMENTS**

Cash and investments consisted of the following at June 30:

	2014	2013
Balance per bank	\$ 530,134	\$ 175,000
Less: Outstanding checks	(528,087)	(179,178)
Balance per books	2,047	(4,178)
Cash in sweep account	-	121,606
Cash on hand	1,000	1,000
Cash on hand and in bank	3,047	118,427
Pooled funds:		
Cash in Local Agency Investment Fund	4,496,075	3,440,782
Commercial Paper	-	549,962
Money Market Funds	33,634	1,097,664
Total Cash and Equivalents	<u>4,532,756</u>	<u>5,206,835</u>
Pooled funds:		
Investments	<u>28,524,105</u>	<u>26,558,824</u>
Total Cash and Investments	<u>\$ 33,056,861</u>	<u>\$ 31,765,659</u>

**A. Cash and Equivalents**

***Cash in Bank***

The carrying amount of CIPA's cash is covered by Federal depository insurance up to \$250,000. As of June 30, 2014, CIPA's deposits were not exposed to custodial credit risks.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

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*Local Agency Investment Fund*

CIPA is a voluntary participant in Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the State and invests the cash. The fair value of CIPA's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon CIPA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis and reported as cash equivalents in the statement of net assets. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations.

The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. The value of the LAIF deposits as of June 30, 2014, was \$4,496,075 and had weighted average maturity of 232 days. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

LAIF is administered by the State Treasurer and audited annually by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

**B. Investments**

*Authorized Deposits/Investments*

Under provisions of CIPA's Investment Policy, and in accordance with Section 53600 of the California Government Code, CIPA may invest in the following types of investments:

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in Any One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	30%
Municipal Securities	5 years	None	5%
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	25%	5%
Certificates of Deposit - Negotiable	5 years	30%	5%
Certificates of Deposit - Non-negotiable	5 years	30%	5%
Corporate Notes	5 years	30%	5%
Mortgage Obligations/Asset Backed Securities	5 years	20%	5%
Money Market Mutual Funds	None	20%	10%
Local Agency Investment Fund	None	None	None

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*Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. CIPA's investment policy contains policy requirements that would limit the exposure to custodial credit risk for investments. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of CIPA's bank or other trustee. Securities are to be held in the name of CIPA, and are to be purchased on a delivery vs. payment (DVP) basis only. Investments with various federal agencies, commercial paper, and corporate notes with a fair value of \$28,524,105 at June 30, 2014, are held by CIPA's custodian bank.

*Disclosures Relating to Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that CIPA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2014, CIPA had the following investments:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasury Obligations	\$ 6,656,767	\$ 1,541,076	\$ 324,499	\$ 4,791,192
U.S. Agency Securities	13,006,318	2,441,680	3,594,787	6,969,851
Mortgage Obligations/Asset Backed Securities	688,881	-	688,881	-
Corporate Notes	7,887,316	2,461,440	1,715,779	3,710,097
Commercial Paper	284,823	284,823	-	-
Total	\$ 28,524,105	\$ 6,729,019	\$ 6,323,946	\$ 15,471,140

CIPA's investments are presented in the Statement of Net Position as follows:

	2014	2013
Short-Term Investments	\$ 6,729,018	\$ 4,969,355
Long-Term Investments	21,795,087	21,589,469
Total Investments	\$ 28,524,105	\$ 26,558,824



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***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and CIPA's investment policy, and the actual rating as of year-end for each investment type as rated by Moody's.

Investment Type	Fair Value	Minimum Legal Rating	Exempt from Disclosure	Ratings as of 6/30/2014			
				Aaa	Aa1-Aa3	A1	A2
U.S. Treasury Obligations	\$ 6,656,767	N/A	\$ 6,656,767	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	13,006,318	N/A	-	13,006,318	-	-	-
Mortgage Obligations/ Asset Backed Securities	688,881	AA/Aa	-	688,881	-	-	-
Corporate Notes	7,887,316	A/A2	-	-	2,418,157	2,989,372	2,072,703
Commercial Paper	284,823	A/A2	-	284,823	-	-	-
Total	<u>\$ 28,524,105</u>		<u>\$ 6,656,767</u>	<u>\$ 13,980,022</u>	<u>\$ 2,418,157</u>	<u>\$ 2,989,372</u>	<u>\$ 2,072,703</u>

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The investment policy of CIPA contains limitations on the amounts that can be invested in any one issuer. Investments in any one issuer that represent 5 percent or more of total CIPA investments are as follows:

Issuer	Investment Type	Fair Value
Federal Farm Credit Banks	U.S. Agency Securities	\$ 2,279,246
Federal Home Loan Banks	U.S. Agency Securities	3,287,812
FNMA	U.S. Agency Securities	4,008,256
FHLMC	U.S. Agency Securities	3,143,707

***NOTE 3 - ACCOUNTS RECEIVABLE***

Accounts receivable at June 30, 2014, consist of the following:

Interest income	\$ 2,853
Member assessments	2,266,973
Total Accounts Receivable	<u>2,269,826</u>
Member assessments considered long-term receivables	1,941,590
Short-term Accounts Receivable	<u>\$ 328,236</u>

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**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2014, consist of the following:

Claims	\$ 40,564
Total Accounts Payable	\$ 40,564

**NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY**

As discussed in Note 1, CIPA establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related legal expenses. The following represents changes in those aggregate liabilities for CIPA during the fiscal year ended June 30:

	2014	2013
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 16,425,590	\$ 16,655,886
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	3,407,015	2,852,576
Increase (decrease) in provision for insured events of prior fiscal years	(548,317)	(2,234,821)
Total incurred claims and claim adjustment expenses	2,858,698	617,755
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	2,703,992	848,051
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 16,580,296	\$ 16,425,590

The components of the unpaid claims and claim adjustment expenses as of June 30, 2014 and 2013, were as follows:

	2014	2013
Claims liability	\$ 16,580,296	\$ 16,425,590
Current portion	(1,041,784)	(2,384,676)
Total	\$ 15,538,512	\$ 14,040,914

At June 30, 2014 and 2013, estimated unpaid losses of \$18,006,490 and \$17,905,729, respectively, are reflected at their net present values of \$16,580,296 and \$16,425,590, respectively. At June 30, 2014 and 2013, unpaid losses are discounted at three percent.

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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

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*NOTE 6 - COMMITMENTS AND CONTINGENCIES*

**Litigation**

CIPA is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the 2014 disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of CIPA at June 30, 2014.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE**  
**JUNE 30, 2014**

	Liability	
	Current Year	Prior Year
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 6,736,633	\$ 6,305,758
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	2,039,108	1,990,342
Increase (decrease) in provision for insured events of prior fiscal years	(429,143)	(1,138,745)
Total incurred claims and claim adjustment expenses	<u>1,609,965</u>	<u>851,597</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,675,951</u>	<u>420,722</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 6,670,647</u>	<u>\$ 6,736,633</u>

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Workers' Compensation		Total	
Current Year	Prior Year	Current Year	Prior Year
\$ 9,688,957	\$ 10,350,128	\$ 16,425,590	\$ 16,655,886
1,367,907	862,234	3,407,015	2,852,576
(119,174)	(1,096,076)	(548,317)	(2,234,821)
1,248,733	(233,842)	2,858,698	617,755
1,028,041	427,329	2,703,992	848,051
<u>\$ 9,909,649</u>	<u>\$ 9,688,957</u>	<u>\$ 16,580,296</u>	<u>\$ 16,425,590</u>

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**CLAIMS DEVELOPMENT INFORMATION**  
**JUNE 30, 2014**

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The following table illustrates how CIPA's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurance) and other expenses assumed by CIPA as of the end of each of the past years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to excess insurance, and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of CIPA including overhead and claims expense not allocable to individual claims. (3) This line shows CIPA's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurance, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by excess insurance as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known). (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

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**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –**  
**LIABILITY PROGRAM**  
**JUNE 30, 2014**

	2005	2006	2007	2008
(1) Required Contribution and Investment Revenue:				
Earned	\$ 5,828,955	\$ 5,184,800	\$ 6,443,763	\$ 6,031,019
Dividends	(2,413,001)	(2,257,125)	(1,909,032)	(1,537,535)
Ceded	(3,915,978)	(3,274,194)	(3,775,356)	(3,474,613)
Net earned	<u>(500,024)</u>	<u>(346,519)</u>	<u>759,375</u>	<u>1,018,871</u>
(2) Unallocated Expenses	<u>184,742</u>	<u>205,609</u>	<u>167,163</u>	<u>210,669</u>
(3) Estimated Claims and Expenses, End of Policy Year:				
Incurred	1,699,873	1,490,263	1,634,326	1,300,643
Ceded				
Net incurred	<u>1,699,873</u>	<u>1,490,263</u>	<u>1,634,326</u>	<u>1,300,643</u>
(4) Net Paid (cumulative as of):				
June 30, 2005	254,393	-	-	-
June 30, 2006	54,393	-	-	-
June 30, 2007	466,106	-	-	-
June 30, 2008	1,860,135	-	-	-
June 30, 2009	2,110,135	1,334,469	863,152	-
June 30, 2010	2,110,135	1,334,469	863,152	-
June 30, 2011	2,110,135	1,334,469	2,043,518	-
June 30, 2012	2,110,135	1,334,469	2,043,518	-
June 30, 2013	2,110,135	1,334,469	2,043,518	-
June 30, 2014	2,110,135	1,334,469	2,043,518	86,078
(5) Re-Estimated Ceded Claims and Expenses				
(6) Re-Estimated Net Incurred Claims and Expenses:				
June 30, 2005	1,699,873	-	-	-
June 30, 2006	3,187,878	1,490,263	-	-
June 30, 2007	3,407,780	1,327,129	1,634,326	-
June 30, 2008	2,750,245	2,933,675	2,338,484	1,300,643
June 30, 2009	2,110,134	1,334,469	1,576,230	1,324,884
June 30, 2010	2,110,134	1,334,469	2,752,648	895,025
June 30, 2011	2,110,135	1,334,469	2,043,518	481,879
June 30, 2012	2,110,135	1,334,469	2,043,518	174,234
June 30, 2013	2,110,135	1,334,469	2,043,518	-
June 30, 2014	2,110,135	1,334,469	2,043,518	86,078
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (410,262)</u>	<u>\$ 155,794</u>	<u>\$ (409,192)</u>	<u>\$ 1,214,565</u>



2009	2010	2011	2012	2013	2014
\$ 5,284,065	\$ 5,300,698	\$ 6,233,743	\$ 5,002,193	\$ 4,773,505	\$ 5,934,271
-	(482,930)	(421,547)	(421,548)	(421,549)	(482,930)
<u>(2,610,367)</u>	<u>(2,872,267)</u>	<u>(2,653,752)</u>	<u>(3,026,555)</u>	<u>(2,989,114)</u>	<u>(3,281,099)</u>
2,673,698	1,945,501	3,158,444	1,554,090	1,362,842	2,170,242
<u>160,750</u>	<u>184,739</u>	<u>184,975</u>	<u>231,102</u>	<u>232,446</u>	<u>195,955</u>
2,491,264	1,313,205	2,647,225	1,664,749	1,990,342	2,039,108
<u>2,491,264</u>	<u>1,313,205</u>	<u>2,647,225</u>	<u>1,664,749</u>	<u>1,990,342</u>	<u>2,039,108</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
167,530	-	-	-	-	-
167,530	-	433,532	-	-	-
167,530	184,698	433,532	-	-	-
167,530	358,147	2,156,064	21,799	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,491,264	-	-	-	-	-
1,842,185	1,313,205	-	-	-	-
2,005,301	610,869	2,647,225	-	-	-
803,316	1,078,417	3,651,306	1,654,749	-	-
167,530	1,123,251	3,407,276	1,317,569	1,990,342	-
251,125	847,006	3,761,321	1,553,266	1,309,025	2,039,108
<u>\$ 2,240,139</u>	<u>\$ 466,199</u>	<u>\$ (1,114,096)</u>	<u>\$ 111,483</u>	<u>\$ 681,317</u>	<u>\$ -</u>

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –**  
**WORKERS' COMPENSATION PROGRAM**  
**JUNE 30, 2014**

	2005	2006	2007	2008
(1) Required Contribution and Investment Revenue:				
Earned	\$ 1,660,549	\$ 1,647,264	\$ 2,074,549	\$ 2,044,712
Ceded	(247,669)	(282,461)	(423,481)	(368,016)
Net earned	<u>1,412,880</u>	<u>1,364,803</u>	<u>1,651,068</u>	<u>1,676,696</u>
(2) Unallocated Expenses	<u>50,399</u>	<u>109,025</u>	<u>145,339</u>	<u>276,754</u>
(3) Estimated Claims and Expenses, End of Policy Year:				
Incurred	1,311,844	1,222,929	939,804	793,412
Ceded	-	-	-	-
Net incurred	<u>1,311,844</u>	<u>1,222,929</u>	<u>939,804</u>	<u>793,412</u>
(4) Net Paid (cumulative as of):				
June 30, 2005	-	-	-	-
June 30, 2006	-	-	-	-
June 30, 2007	21,307	-	-	-
June 30, 2008	52,875	-	18,207	-
June 30, 2009	79,460	-	191,328	-
June 30, 2010	95,927	-	296,144	-
June 30, 2011	136,871	-	453,138	10,867
June 30, 2012	479,578	-	562,696	42,691
June 30, 2013	522,693	-	656,496	84,261
June 30, 2014	564,210	-	978,807	116,266
(5) and Expenses				
(6) Re-Estimated Net Incurred Claims and Expenses:				
June 30, 2005	1,311,844	-	-	-
June 30, 2006	1,133,587	1,222,929	-	-
June 30, 2007	769,667	834,833	939,804	-
June 30, 2008	510,682	211,616	1,306,876	-
June 30, 2009	450,716	98,877	1,181,824	482,925
June 30, 2010	458,821	32,019	1,381,160	173,200
June 30, 2011	1,815,452	18,555	1,353,055	454,861
June 30, 2012	1,755,016	17,307	1,165,912	542,909
June 30, 2013	1,638,412	497,283	1,280,003	398,828
June 30, 2014	1,631,758	509,860	1,286,919	488,006
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (319,914)</u>	<u>\$ 713,069</u>	<u>\$ (347,115)</u>	<u>\$ 305,406</u>

2009	2010	2011	2012	2013	2014
\$ 1,848,379	\$ 1,637,996	\$ 2,456,590	\$ 2,300,450	\$ 1,696,012	\$ 2,057,613
(333,662)	(342,476)	(242,957)	(203,397)	(426,307)	(406,157)
<u>1,514,717</u>	<u>1,295,520</u>	<u>2,213,633</u>	<u>2,097,053</u>	<u>1,269,705</u>	<u>1,651,456</u>
164,922	145,681	147,301	156,249	135,295	139,883
611,258	620,509	2,694,249	1,306,328	862,234	1,367,907
-	-	-	-	-	-
<u>611,258</u>	<u>620,509</u>	<u>2,694,249</u>	<u>1,306,328</u>	<u>862,234</u>	<u>1,367,907</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
17,434	-	-	-	-	-
311,071	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
382,870	620,509	-	-	-	-
1,563,216	1,117,853	2,694,249	-	-	-
3,334,101	1,016,334	1,019,759	1,306,328	-	-
2,810,023	669,442	880,057	871,245	862,234	-
2,151,159	637,175	732,173	1,207,638	1,162,429	1,367,907
<u>\$ (1,539,901)</u>	<u>\$ (16,666)</u>	<u>\$ 1,962,076</u>	<u>\$ 98,690</u>	<u>\$ (300,195)</u>	<u>\$ -</u>

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***SUPPLEMENTARY INFORMATION***

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**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**COMBINING STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	Liability	Workers' Compensation	Total
<b>ASSETS</b>			
Current Assets			
Cash and cash equivalents	\$ 2,079,298	\$ 2,453,458	\$ 4,532,756
Receivables	240,446	87,790	328,236
Short-term investments	4,309,263	2,419,755	6,729,018
Total Current Assets	<u>6,629,007</u>	<u>4,961,003</u>	<u>11,590,010</u>
Noncurrent Assets			
Receivables	1,318,471	623,119	1,941,590
Investments	13,956,172	7,838,915	21,795,087
Total Noncurrent Assets	<u>15,274,643</u>	<u>8,462,034</u>	<u>23,736,677</u>
Total Assets	<u>21,903,650</u>	<u>13,423,037</u>	<u>35,326,687</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	19,531	21,033	40,564
Due members	5,264	129,827	135,091
Dividends payable	482,930	-	482,930
Claims deposit	8,625	-	8,625
Current portion of unpaid claims and claim adjustment expenses	510,271	531,513	1,041,784
Total Current Liabilities	<u>1,026,621</u>	<u>682,373</u>	<u>1,708,994</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	6,160,376	9,378,136	15,538,512
Total Liabilities	<u>7,186,997</u>	<u>10,060,509</u>	<u>17,247,506</u>
<b>NET POSITION</b>			
Net position - unrestricted	<u>14,716,653</u>	<u>3,362,528</u>	<u>18,079,181</u>
Total Net Position	<u>\$ 14,716,653</u>	<u>\$ 3,362,528</u>	<u>\$ 18,079,181</u>

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**COMBINING STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	Liability	Workers' Compensation	Total
<b>OPERATING REVENUES</b>			
Contributions	\$ 5,379,773	\$ 2,123,495	\$ 7,503,268
Contributions assessments	306,907	(208,170)	98,737
Excess insurance	(1,229,409)	(406,157)	(1,635,566)
Joint purchase insurance	(2,051,690)	-	(2,051,690)
	2,405,581	1,509,168	3,914,749
Other	1,419	125	1,544
Total Operating Revenues	<u>2,407,000</u>	<u>1,509,293</u>	<u>3,916,293</u>
<b>OPERATING EXPENSES</b>			
Claims paid	1,675,951	1,028,041	2,703,992
Provision for loss reserves	(65,986)	220,692	154,706
Litigation management	-	-	-
Risk management services	107,224	107,224	214,449
	1,717,189	1,355,957	3,073,147
Administration expenses	88,731	32,658	121,389
Dividends	482,930	-	482,930
Total Operating Expenses	<u>2,288,850</u>	<u>1,388,615</u>	<u>3,677,466</u>
Operating Income	118,149	120,678	238,827
<b>NONOPERATING REVENUES</b>			
Investment earnings net of fees	247,591	142,288	389,879
<b>INCREASE IN NET POSITION</b>	365,740	262,966	628,706
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>14,350,913</u>	<u>3,099,562</u>	<u>17,450,475</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 14,716,653</u>	<u>\$ 3,362,528</u>	<u>\$ 18,079,181</u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
California Insurance Pool Authority  
Newport Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Insurance Pool Authority (Authority), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 14, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Laguna Hills, California  
November 14, 2014



**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**FINANCIAL STATEMENT FINDINGS**  
**JUNE 30, 2014**

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There were no findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**CALIFORNIA INSURANCE POOL AUTHORITY**  
**(A Joint Powers Authority)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**JUNE 30, 2014**

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There were no audit findings reported in the prior year's schedule of financial statement findings.