SJVIA
San Joaquin Valley
Insurance Authority

Meeting Location:
Fresno County Employees' Retirement
Association Board Chambers
1111 H Street
Fresno, CA 93721
April 28, 2017
9:00 AM

AGENDA DATE: April 28, 2017

ITEM NUMBER: 10

SUBJECT: 2013-2014 audited financial statements

REQUEST(S): That the Board receives and files the 2013-2014 audited financial statements

DESCRIPTION: Informational item. Please see attached report.

FISCAL IMPACT/FINANCING: None.

ADMINISTRATIVE SIGN-OFF:

Oscar J Garcia

Oscar J. Garcia, CPA
SJVIA Auditor-Treasurer

PRICE PAIGE & COMPANY
Accountancy Corporation

The Place to Be

March 21, 2017

To the Board of Directors
San Joaquin Valley Insurance Authority
Fresno, California

We have audited the financial statements of the San Joaquin Valley Insurance Authority (the Authority) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 1, 2016. Professional standards also require that we communicate to you the following information related to our audit.

<u>Significant Audit Findings</u>

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Authority's financial statements was:

> Unpaid claims and claims adjustment expense is determined using claims, premium, expense, and enrollment data with relevant actuarial assumptions. We evaluated the key factors and assumptions used to develop the unpaid claims and claims adjustment expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

The completion of our audit was delayed because certain audit documentation requested was initially unavailable. Additional documents requested were ultimately provided but impacted the timing and completion of the audit.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

www.ppcpas.com

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. There are no misstatements detected as a result of the audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of Board of Directors and management of the San Joaquin Valley Insurance Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Price Paige & Company

SAN JOAQUIN VALLEY INSURANCE AUTHORITY

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITOR'S REPORTS

FOR THE YEAR ENDED JUNE 30, 2014

<u>SAN JOAQUIN VALLEY INSURANCE AUTHORITY</u>
FRESNO, CALIFORNIA

JUNE 30, 2014

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PRICE PAIGE & COMPANY
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
San Joaquin Valley Insurance Authority
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of San Joaquin Valley Insurance Authority (the Authority), a component unit of the County of Fresno, California, 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 opinions 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 Authority'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 Authority'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.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

www.ppcpas.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Joaquin Valley Insurance Authority, as of June 30, 2014, and the respective 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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Claims Development Information on pages 20-21 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated March 21, 2017, 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 the Authority's internal control over financial reporting and compliance.

Price Paige & Company

Clovis, California
March 21, 2017

BASIC FINANCIAL STATEMENTS

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

STATEMENT OF NET POSITION
JUNE 30, 2014

Current Assets:	
Cash and cash equivalents	$ 1,619,081
Due from other governmental units	7,362,539
Other receivable	2,854,046
Investment income receivable	13,026
Prepaid expenses	42,829
Total current assets	11,891,521
Noncurrent Assets:	
Deposits receivable	1,603,362
Investments	5,096,079
Total noncurrent assets	6,699,441
Total assets	18,590,962
LIABILITIES	
Current Liabilities:	
Accounts payable	2,100,177
Due to other governmental units	461,197
Unearned member contributions	243,645
Unpaid claims and claims adjustment expenses	8,720,755
Total current liabilities	11,525,774
Noncurrent Liabilities:	
Due to other governmental units	988,643
Total noncurrent liabilities	988,643
Total liabilities	12,514,417
NET POSITION	
Unrestricted	6,076,545
Total net position	$ 6,076,545

The notes to the financial statements are an integral part of this statement.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

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

Operating Revenues:	
Member contributions	$ 81,388,988
Total operating revenues	81,388,988
Operating Expenses:	
Claims and claims adjustment expenses	74,523,532
Administrative expenses	6,159,114
Total operating expenses	80,682,646
Operating income (loss)	706,342
Nonoperating Revenues:	
Investment income	61,584
Total nonoperating revenues	61,584
Change in net position	767,926
Net position, beginning of year	5,308,619
Net position, end of year	$ 6,076,545

The notes to the financial statements are an integral part of this statement.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities:	
Cash received from members	$ 90,202,709
Cash received from reinsurance & refunds	62,856
Cash paid to vendors	(17,439,859)
Cash paid for claims	(75,851,817)
Net cash provided by (used in) operating activities	(3,026,111)
Net increase (decrease) in cash and cash equivalents	(3,026,111)
Cash and cash equivalents - beginning	4,645,192
Cash and cash equivalents - ending	$ 1,619,081

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:

Operating income (loss)	$ 706,342
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
(Increase) decrease in due from other governmental units	(2,399,171)
(Increase) decrease in other receivables	(2,275,146)
(Increase) decrease in deposits receivable	(655,914)
(Increase) decrease in prepaid expenses	(25,305)
Increase (decrease) in accounts payable	218,810
Increase (decrease) in unearned member contributions	231,387
Increase (decrease) in due to other governmental units	565,408
Increase (decrease) in unpaid claims and claims adjustment expenses	607,478
Total adjustments	(3,732,453)
Net cash provided by (used in) operating activities	$ (3,026,111)

Noncash Investing Activities

Changes in unrealized gain (loss) on investments	$ 11,459
Accrued investment income	50,124
Total noncash investing activities	$ 61,583

The notes to the financial statements are an integral part of this statement.

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources.

In November 1989, GASB issued Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. GASB Statement No. 10 establishes accounting and financial reporting standards for risk financing and insurance-related activities for state and local governmental entities, including public entity risk pools. These financial statements have been prepared in accordance with GASB Statement No. 10, as amended by GASB Statement No. 30, *Risk Financing Omnibus*.

A. Reporting Entity

On October 6, 2009, County of Fresno and County of Tulare entered into an agreement creating the San Joaquin Valley Insurance Authority (the Authority) to negotiate, purchase or otherwise fund health, vision, dental, and life insurance for the employees of County of Fresno and certain employees of County of Tulare, in all instances subject to obtaining a financial commitment by the County of Fresno and County of Tulare to pay for their respective costs. Both counties desire to secure such coverage for the purpose of obtaining other coverage and/or insurance policies at more favorable rates, and administering such insurance programs with greater efficiency, than they could obtain by their individual efforts.

The Authority is governed by the Board of Directors which is composed of seven directors. Four of the directors are appointed by the County of Fresno Board of Supervisors and three of the directors are appointed by the County of Tulare Board of Supervisors. The Board of Directors, President and Vice President serve two-year terms. The County of Fresno or the County of Tulare may withdraw from the Authority by giving 120 days written notice to the Board of Directors. Upon the dissolution, all assets of the Authority will be distributed among the County of Fresno and County of Tulare in proportion to their cash contributions.

The Authority's Board of Directors voted to keep health insurance costs neutral and moved from a claims-servicing pool to a risk-sharing pool and insurance-purchasing pool effective January 1, 2012. The result is the claims experience of all member entities is pooled and risk is shared among all members, or the risk is transferred to commercial insurers by purchasing insurance. The County of Fresno and the County of Tulare have transferred their reserve funding for incurred but not reported (IBNR) claims to the Authority.

The Authority is legally separate from the County of Fresno (the County). However, the Authority is a component unit of the County due to the fact that the County appoints a voting majority of the Authority's board and, accordingly, can significantly influence the activities and level of services performed by the Authority.

The Authority itself does not employ any personnel. The County of Fresno staff provides the necessary services such as maintenance and accounting to the Authority on a reimbursement basis.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

The Authority's Board of Directors has elected to open membership consideration to other public agencies to increase membership, further reduce imbedded overhead cost and leverage additional growth to improve the Authority's negotiating capabilities with plan vendors in California. In addition to the founding pool participants consisting of the County of Fresno and County of Tulare, the following public agencies have joined the Authority as of June 30, 2014:

- City of San Joaquin (effective June 5, 2013)
- City of Reedley (effective June 25, 2013)
- City of Sanger (effective July 1, 2013)
- City of Shafter (effective July 1, 2013)
- City of Gustine (effective October 1, 2013)
- City of Farmersville (effective November 6, 2013)
- City of Newman (effective December 1, 2013)
- City of Riverbank (effective December 12, 2013)
- City of Wasco (effective January 1, 2014)

B. Basis of Accounting

The Authority complies with Generally Accepted Accounting Principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The Authority is a proprietary entity; it uses an enterprise fund format to report its activities for financial statement purposes. Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the enterprise fund are those revenues that are generated from the primary operations of the Authority. These revenues include premiums for insurance coverage. All other revenues are reported as nonoperating revenues. Operating expenses are those expenses that are essential to the primary operations of the Authority. All other expenses are reported as nonoperating expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

Since San Joaquin Valley Insurance Authority is both an insurance-purchasing pool and a risk-sharing pool, the Authority's activities include both acting as an insurance purchaser and as an insurer. For the activities for which the Authority was acting as an insurance purchaser, GASB Statement No. 10 states that public entity risk pools that do not accept, transfer or pool risk among participants but instead transfer that risk to commercial insurers by purchasing insurance are acting as insurance purchasers and not insurers. Accordingly, operating statements of these pools should report insurance purchasing service revenue (if any) and administrative costs. Amounts collected or due from pool participants and remitted to the insurance carriers should be reported as a net liability. For the activities for which the Authority was acting as an insurer, operating statements should report member contributions as well as claims and administrative expenses.

D. Assets, Liabilities and Net Position

1. Cash

For purposes of the Statement of Cash Flows, the Authority considered all cash in banks to be cash. Cash include three bank accounts with the JPMorgan Chase Bank.

2. Investments

Investments are recorded at fair value. Investment income is recorded as earned.

3. Due from Other Governmental Units

Certain revenues are earned by the Authority during the current reporting period but are not received until after the beginning of the next fiscal year. These revenues are reported as due from other governmental units in the financial statements.

4. Deposits Receivable

The Authority has made the required minimum claims deposit and payments to Anthem Blue Cross. Claims deposit held by Anthem Blue Cross as of June 30, 2014 is $1,603,362. $1,119,799 of the deposit receivable will be returned to the Authority when the Authority discontinues the agreement with Anthem Blue Cross. $483,563 will be returned in 2015-2016.

5. Member Contributions

Each member is assessed a premium which is intended to cover the Authority's claims, operating costs, claim expenses and any premiums for any risk transferred to commercial insurers by purchasing insurance for the insurance programs. Premiums are based upon the approved rates by the Authority's Board of Directors. All premiums are recognized as revenue when earned, based upon the period covered by the premiums. In determining if a premium deficiency exists, the pool does not consider anticipated investment income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Position (Continued)

6. Accounts Payable

Certain costs are incurred by the Authority during the current reporting period but are not paid until after the beginning of the next fiscal year. These costs are reported as payables in the financial statements. The Authority's current accounts payable balance of $2,100,177 as of June 30, 2014, is related to certain contract services and payments for eligibility administration and consulting fees as well as amounts collected or due from pool participants and remitted to the insurance carriers. Adjustments to estimates are charged or credited to expense in the periods in which they are made.

7. Due to Other Governmental Units

County of Fresno has made a required minimum claims deposit of $884,432 to Anthem Blue Cross on behalf of the Authority. The Authority will repay the County of Fresno after receiving refunds from Anthem Blue Cross. Additionally, $565,408 of excise taxes is due to the federal government. The current and noncurrent due to other governmental units as of June 30, 2014 are $461,197 and $988,643, respectively.

8. Unpaid Claims and Claims Adjustment Expenses

The Authority establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported (IBNR). 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. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

9. Reinsurance

In the ordinary course of business, the Authority reinsures certain risks with commercial insurers through contractual agreements, commonly referred to as reinsurance ceded. These agreements serve to limit the Authority's potential losses for large aggregate and individual losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Authority as direct insurer of the risks reinsured. A contingent liability exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet its obligation assumed under the reinsurance agreements. The Authority does not report reinsured risk as liabilities unless it is probable that those risks will not be covered by reinsurers. Premiums ceded to reinsurers during fiscal year 2014 were $1,940,663, and the amounts recovered from reinsurers during fiscal year 2014 were $1,362,659.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Position (Continued)

10. Net Position

Net position is reported in three categories as follows:

Net Investment in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition.

Restricted – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted – This amount represents all resources that do not meet the definition of "net investment in capital assets" or "restricted net position."

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS

Summary of Deposits

Cash and cash equivalents as of June 30, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	$ 1,619,081
Total cash and cash equivalents	$ 1,619,081

Cash and cash equivalents as of June 30, 2014 consist of the following:

Deposits with financial institutions	$ 1,619,081
Total cash and cash equivalents	$ 1,619,081

NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)

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 and the Authority's investment policy do 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% of the total amount deposited by the public agencies.

As of June 30, 2014, the Authority's deposits with financial institutions in excess of federal depository insurance limits were held in fully collateralized accounts, as permitted by the California Government Code.

NOTE 3 – DUE FROM OTHER GOVERNMENTAL UNITS

The Authority's current due from other governmental units balance of $7,362,539 as of June 30, 2014 is related to insurance premiums, claims reserve, eligibility administration service fees, consulting fees and other administrative fees due from County of Fresno. As of June 30, 2014, all of the "due from other governmental units" are considered by management to be collectible. Therefore, no allowance for doubtful accounts has been recognized.

NOTE 4 – INVESTMENTS

The Authority maintains an external position in the County of Tulare Investment Pool. This pool has significant regulatory oversight as delineated in both the County of Tulare's Investment Policy and the California Government Code. For example, the County of Tulare's Investment Policy directs that all investments should be made in accordance with the County Treasurer's Investment Policy and California Government Code §27000 et. seq., and §53600 et. seq. The Policy also directs that the administration of idle funds should be performed in accordance with the prudent investor standard as stated in California Government Code §§27000.3 and 53600.3. The Policy lists the Treasurer's primary goals for the investment of the portfolio as (in order of priority as per California Government Code §§27000.5 and 53600.5): safety, liquidity and yield. The Policy also directs the County of Tulare Treasury Oversight Committee to annually review and monitor the Investment Policy and cause an annual audit to determine the Treasurer's compliance with the Investment Policy.

The Authority's investment is recognized at fair value. It is expressed as a percentage of the Authority's position (.0.535687475%) in the total estimated fair value of the County of Tulare's investment pool at June 30, 2014 ($951,315,739). The Authority's investment is $5,096,079 as of June 30, 2014.

NOTE 4 – INVESTMENTS (Continued)

Investments Authorized by the Authority's Investment Policy

The following securities are authorized investments for the San Joaquin Valley Insurance Authority Investment Pool.

Permitted Investments/Deposits	Government Code Limits %	Investment Policy Limits %	Investment Policy Term Limit	Rating
U.S. Government Securities (1)	No Limit	100%	5 years	N/A
Securities issued by United States Government Sponsored Enterprises (1)	No Limit	100%	5 years	N/A
Bankers Acceptances (2)	40%	40%	180 days	N/A
Commercial Paper	40%	40%	270 days	P-1, A-1+
Negotiable Certificates of Deposit (3)	40%	30%	13 months	P-1, A-1+ or 4 Star
Non-negotiable Certificates of Deposit (3)	No Limit	50%	13 months	P-1, A-1+ or 4 Star
Account Registry Service Deposits	30%	15%	Overnight/Weekend	N/A
Repurchase Agreements	No Limit	15%	Overnight/Weekend	N/A
Medium Term Notes (4)	30%	30%	5 years	AAA
LAIF (5)	No Limit	$50,000,000	5 years	N/A
Mutual Funds (6)	20%	20%	5 years	AAA, AAa
Bonds, notes or warrants of the State of California and any local agency within California	No Limit	No limit	No limit	N/A
Fresno County and Tulare County treasury pool	No Limit	No limit	No limit	N/A

(1) Investments in securities of the U.S. Government and securities issued by the U.S. Government Sponsored Enterprises have a combined limit of 85% of the portfolio.

(2) The Authority's investment policy limits any investment in bankers acceptances to the top 150 world banks as determined by their total assets and limited to those institutions in this group whose short term debt is of prime quality and of the highest ranking as provided for by Moody's or Standard and Poor's (P-1, A-1+).

(3) Banks, savings associations or federal associations having a "4 Star" or higher rating as provided by Bauer Financial, Inc. or a comparable rating service. For negotiable certificates of deposit, no more than 5 percent of the money shall be invested in any one institution. Negotiable certificates of deposit and account registry service deposits combined shall not exceed 30% of the portfolio. For non-negotiable certificates of deposit, no more than 15 percent of the money shall be invested in any one institution.

(4) Investments in medium term notes are restricted to maturities of not to exceed two years if in rating category "A", not to exceed three years if in rating category "AA" and not to exceed five years if in rating category "AAA".

(5) LAIF Board of Directors limits the investment to $50,000,000, excluding bond and note proceeds. Government Code does not place a percentage limit on the amount of money that may be invested in LAIF.

NOTE 4 – INVESTMENTS (Continued)

Investments Authorized by the Authority's Investment Policy (Continued)

(6) Diversified management companies investing in the securities and obligations as authorized by California Government Code, Sections 53601, et seq., shall either [1] attain the highest ranking or the highest letter and numerical rating provided by two of the largest nationally recognized rating services, or [2] have an investment adviser registered with the SEC with at least five years of experience investing in the securities authorized by code sections noted in the Authority's investment policy and with assets under management in excess of $500,000,000. Diversified management companies issuing shares of beneficial interest that are money market funds registered with the Securities and Exchange Commission (SEC) under the Investment Act of 1940 shall either [1] attain the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or [2] retain an investment adviser registered or exempt from registration with the SEC with not less than five years of experience managing money market mutual funds with assets under management in excess of $500,000,000. Only 10 percent of the money may be invested in any one mutual fund.

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 sensitivity of an investment's fair value to changes in market interest rates is proportional to the length of the maturity of an investment. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Authority's interest rate risk policies are reflected in the "Investments Authorized by the Authority's Investment Policy" section by virtue of the disclosure of its policy to only invest in certain authorized investments with authorized percentage limits, terms and ratings. The weighted average maturity of the County of Tulare investment pool as of June 30, 2014 is 3.5 years.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2014 and during the 2013-2014 fiscal year, the Authority did not hold or purchase investments that were highly sensitive to interest rate fluctuations.

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. The County of Tulare Investment Pool is not rated. The Authority's credit risk policies are reflected in the "Investments Authorized by the Authority's Investment Policy" section by virtue of the disclosure of its policy to only invest in certain authorized investments with authorized percentage limits, terms and ratings.

NOTE 5 – RECONCILIATION OF CLAIMS LIABILITIES

Liabilities for claims are based on undiscounted estimates of the ultimate net cost of settling all claims which are incurred but unpaid at year-end, including claims incurred but not reported. The following represents changes in liabilities for the Authority during the fiscal year ended June 30, 2014:

Changes in the balance of claims liabilities dring the fiscal year is as follows:

	2014	2013
Unpaid claims and claim adjustment expenses at beginning of year	$ 8,113,277	$ 6,082,876
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	74,523,532	65,640,209
Decrease in provision for insured events of prior years	-	(1,660,111)
Total incurred claims and claim adjustment expense	74,523,532	63,980,098
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	69,218,570	57,532,430
Claims and claim adjustment expenses attributable to insured events of prior years	4,697,484	4,417,267
Total payment	73,916,054	61,949,697
Total unpaid claims and claim adjustment expenses at end of the year	$ 8,720,755	$ 8,113,277

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

NOTE 7 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omission. During the year ended June 30, 2014, the Authority carried insurance through various commercial carriers all risks of losses. No settlements have exceeded coverage levels in place during fiscal year 2013-2014.

The Authority participated in the following insurance coverage programs with various commercial carriers:

Coverage Type	Description	Limit	Deductible
Master Crime Policy	Coverage is provided for incidents such as public employee dishonesty, forgery or alteration, theft, computer fraud and embezzlement.	$10 Million	$ 25,000
Trustees Errors & Omissions	Fiduciary liability insurance is a popular vehicle for the financial protection of fiduciaries of employee benefit plans against legal liability arising out of their role as fiduciaries, including the cost of defending those claims that seek to establish such liability. Coverage is provided for incidents such as miscalculation, a class action lawsuit, and enrollment errors.	$10 Million	$ 25,000
Special Liability	This program provides coverage for claims from third parties alleging damages due to negligence arising out of personal injury and property damage.	$10 Million	$ 1,000
Fiduciary Liability	Pays the legal liability arising from claims for alleged failure to act prudently. Protects the assets of a plan fiduciary due to allegations of breach of fiduciary duties. ERISA explicitly allows for the purchase of fiduciary insurance. It could be a breach of fiduciary duty if a claim arises and no insurance is in place that was readily available.	$5 Million	N/A

NOTE 8 – SUBSEQUENT EVENTS

The Authority's Board of Directors has elected to open membership consideration to other public agencies. The goal is to increase membership, further reduce imbedded overhead cost and leverage additional growth to improve the Authority's negotiating capabilities with plan vendors in California. The following public agencies joined the Authority after June 30, 2014:

- City of Oakdale, City of Hanford, City of Modesto, City of Hughson, and Kings County Superior Courts, City of Clovis (effective January 1, 2015)
- San Joaquin Valley Air Pollution Control District (effective February 1, 2015)
- City of Escalon (effective March 1, 2015)
- County of Sutter, Sutter County Superior Courts and, City of Marysville (effective July 1, 2015)

Nineteen public agencies have elected to leave the Authority on or before January 1, 2017 with an additional agency scheduled to leave at the end of April 2017. As of January 1, 2017, six public agencies remain.

As of January 1, 2017, the Authority has obtained operating loans totaling $5 million from the County of Fresno and $2 million from the County of Tulare. An additional $2 million is available for advance with approval from the County of Tulare on or before March 31, 2017. The County of Fresno loan is expected to be repaid by December 30, 2021 or earlier if sufficient funds are available. The County of Tulare loan is expected to be repaid by June 30, 2018 or earlier if sufficient funds are available. Each loan is accruing interest at its respective county's treasury pool interest rate.

REQUIRED SUPPLEMENTARY INFORMATION

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014

The following table illustrates how the Authority's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Authority as of the end of the previous three fiscal years. Note that only six months of activity is shown for the fiscal year 2012 since the period for which the Authority used a risk-sharing pool was only six months from January 1, 2012 through June 30, 2012. 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 reinsurers, and net earned contribution revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the Authority including overhead and claims expenses.

(3) This line shows the Authority's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expense (both paid and accrued) as originally reported at the end of the year in which the event that triggered coverage occurred (called fiscal year).

(4) This section of one row shows the cumulative net amounts paid as of the end of successive years for each fiscal year.

(5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of current year for each fiscal year.

(6) This section of one row shows how each fiscal year's net incurred losses 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 losses is greater or less than originally thought. As data for individual fiscal years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal years.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2014

		2012	2013	2014
(1)	Required contribution and investment revenue			
	Earned	$ 37,177,277	$ 71,106,229	$ 83,391,236
	Ceded	953,519	1,911,418	1,940,663
	Net earned	36,223,758	69,194,811	81,450,573
(2)	Unallocated expenses	2,385,290	5,000,268	6,159,114
(3)	Estimated claims and expenses, end of fiscal year			
	Incurred	30,233,575	67,195,841	75,886,191
	Ceded	249,031	1,555,632	1,362,659
	Net incurred	29,984,544	65,640,209	74,523,532
(4)	Net paid (cumulative) as of:			
	End of fiscal year	23,901,668	57,532,430	69,218,570
	One year later	28,318,935	49,027,362	-
	Two years later	20,516,027	-	-
(5)	Reestimated ceded claims and expenses	249,031	1,555,632	1,362,659
(6)	Reestimated net incurred claims and expenses:			
	End of fiscal year	29,984,544	65,640,209	74,523,532
	One year later	28,324,433	49,028,783	-
	Two years later	20,516,027	-	-
(7)	Increase (decrease) in estimated net incurred losses and expenses from end of fiscal year	(9,468,517)	(16,611,426)	-

Note that the current year net paid (cumulative amounts for 2012 and 2013 are adjusted to the vendor's actual claims lag reports and basic claims information not appearing on the vendor's actual claims lag reports. Consequently, the current year and prior year differences may represent adjustments of the former actuary's calculations to the actual claims lag reports, not necessarily only additional payments as would normally be the case.

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OTHER INDEPENDENT AUDITOR’S REPORT

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PRICE PAIGE & COMPANY
Accountancy Corporation
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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
San Joaquin Valley Insurance Authority
Fresno, 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 San Joaquin Valley Insurance Authority (the Authority), Fresno, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated March 21, 2017.

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 opinions 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 Authority'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.

677 Scott Avenue
Clovis, CA 93612
tel 559.299.9540
fax 559.299.2344
www.ppcpas.com

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Price Paige & Company

Clovis, California
March 21, 2017

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified			
Internal control over financial reporting:				
Material weaknesses identified?	___	yes	X	no
Significant deficiencies identified that are not considered to be material weaknesses?	___	yes	X	none reported
Noncompliance material to financial statement noted?	___	yes	X	no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.