



BOARD OF DIRECTORS

ANDREAS BORGEAS
JUDITH CASE MC NAIRY
MIKE ENNIS
PHIL LARSON
DEBORAH POOCHIGIAN
PETE VANDER POEL
J. STEVEN WORTHLEY

Meeting Location:
Tulare County Employee Retirement
Association Board Chambers
136 N Akers St
Visalia, CA 93921
February 21, 2014
9:00 AM

AGENDA DATE: February 21, 2014

ITEM NUMBER: 7

SUBJECT: 2011-12 audited financial statements

REQUEST(S): That the Board receive and file the 2011-12 audited financial statements.

DESCRIPTION: Pursuant to Government Code Section 6505, the Authority shall either make or contract with a certified public accountant to make an annual fiscal year audit of all accounts and records of the Authority. Accordingly, the 2011-12 audited financial statements will be presented by the auditors, Price, Paige & Company.

FISCAL IMPACT/FINANCING: None

ADMINISTRATIVE SIGN-OFF:

A handwritten signature in blue ink, appearing to read "Vicki Crow", is written over a horizontal line.

Vicki Crow
SJVIA Auditor-Treasurer

**BEFORE THE BOARD OF DIRECTORS
SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

IN THE MATTER OF

**RESOLUTION NO. _____
AGREEMENT NO. _____**

UPON MOTION OF DIRECTOR _____, SECONDED BY
DIRECTOR _____, THE FOLLOWING WAS ADOPTED BY
THE BOARD OF DIRECTORS, AT AN OFFICIAL MEETING HELD _____
_____, BY THE FOLLOWING VOTE:

AYES:
NOES:
ABSTAIN:
ABSENT:

ATTEST:

BY: _____

* * * * *

**SAN JOAQUIN VALLEY INSURANCE
AUTHORITY**

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

**FOR THE YEAR ENDED
JUNE 30, 2012**

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

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

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, 2012, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 for 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Joaquin Valley Insurance Authority, as of June 30, 2012, and the respective changes in financial position, and cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 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* and should be considered in assessing the results of our audit.

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Management has not presented management's discussion and analysis that governmental 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 19 and 20 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.

Price Pange & Company

Clovis, California
February 12, 2014

BASIC FINANCIAL STATEMENTS

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 8,922,139
Due from other governmental units	3,650,182
Other receivable	249,031
Prepaid expenses	<u>17,422</u>

Total current assets 12,838,774

Noncurrent Assets:

Deposits receivable	<u>710,187</u>
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Total noncurrent assets 710,187

Total assets 13,548,961

LIABILITIES

Current Liabilities:

Accounts payable	1,733,709
Due to other governmental units	30,249
Unpaid claims and claims adjustment expenses	<u>6,000,009</u>

Total current liabilities 7,763,967

Noncurrent Liabilities:

Due to other governmental units	884,432
Unpaid claims and claims adjustment expenses	<u>82,867</u>

Total noncurrent liabilities 967,299

Total liabilities 8,731,266

NET ASSETS

Unrestricted	<u>4,817,695</u>
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Total net assets \$ 4,817,695

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 FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

Operating Revenues:	
Member contributions	\$ 37,177,277
Claims servicing revenue	<u>814,287</u>
Total operating revenues	<u>37,991,564</u>
Operating Expenses:	
Claims and claims adjustment expenses	29,984,544
Insurance expense	953,519
Administrative expenses	<u>2,855,650</u>
Total operating expenses	<u>33,793,713</u>
Change in net assets	4,197,851
Net assets, beginning of year	704,303
Prior period adjustment	<u>(84,459)</u>
Net assets, beginning of year - as restated	<u>619,844</u>
Net assets, end of year	<u>\$ 4,817,695</u>

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, 2012

Cash flows from operating activities:	
Cash received from members	\$ 34,235,397
Cash paid to vendors	(2,290,566)
Cash paid for claims	<u>(23,600,237)</u>
Net cash provided by (used in) operating activities	<u>8,344,594</u>
Net increase (decrease) in cash and cash equivalents	8,344,594
Cash and cash equivalents - beginning	<u>577,545</u>
Cash and cash equivalents - ending	<u>\$ 8,922,139</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Operating income (loss)	\$ 4,197,851
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Prior period adjustments	(84,459)
(Increase) decrease in due from other governmental units	(3,508,163)
(Increase) decrease in other receivables	(248,004)
(Increase) decrease in deposits receivable	(710,187)
(Increase) decrease in prepaid expenses	(17,422)
(Increase) decrease in amount due from pool participants	96,937
Increase (decrease) in accounts payable	1,620,484
Increase (decrease) in due to other governmental units	914,681
Increase (decrease) in unpaid claims & claims adjustment expenses	<u>6,082,876</u>
Total adjustments	<u>4,146,743</u>
Net cash provided by (used in) operating activities	<u>\$ 8,344,594</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

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 elects from its membership a President and Vice President to 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 effective January 1, 2012. The result is the claims experience of all member entities is pooled and risk is shared among all members. The County of Fresno and the County of Tulare have transferred their reserve funding for incurred but not reported (IBNR) claims to the Authority. As of January 1, 2012, the Authority has assumed all risk for incurred claims.

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.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

Pursuant to Governmental Accounting Standards Board (GASB) Standard No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued before November 30, 1989, are applied to proprietary operations unless they conflict with GASB pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

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 Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets, 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 Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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 and claims servicing fees. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Authority. All other expenses are reported as non-operating 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.

C. Basis of Presentation

GASB Statement No. 10 states that public entity risk pools that do not transfer or pool risk among participants are acting as claims servicers and not insurers. From July 1, 2011 to December 31, 2011, the Authority was acting as a claim servicers. Accordingly, operating statements of these pools should report claims servicing revenue and administrative costs. Amounts collected or due from pool participants and paid to settle claims should be reported as a net asset or liability on an accrual basis from January 1, 2012 to June 30, 2013 since the Authority was acting as an insurer, not a claim servicer. Accordingly, operating statements should report member contributions as well as claims and administrative expenses.

D. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents include three bank accounts with the JPMorgan Chase Bank.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets (Continued)

2. 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.

3. Deposits Receivable

The Authority has made the required minimum claims deposit to Anthem Blue Cross, and the deposit will be returned to the Authority when the Authority discontinues the agreement with Anthem Blue Cross. The minimum claims deposit held by Anthem Blue Cross as of June 30, 2012 is \$710,187.

4. Member Contributions

Each member is assessed a premium which intended to cover SJVIA's claims, operating costs and claim expenses 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 on the period covered by the premiums.

The Authority moved from a claims-servicing pool to a risk-sharing pool effective January 1, 2012. As the result, the County of Fresno and the County of Tulare have transferred \$4,748,762 and \$2,000,361 reserve funding for incurred but not reported (IBNR) claims to the Authority, respectively.

5. 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 \$1,733,709 as of June 30, 2012, is related to certain contract services and payments for eligibility administration and consulting fees.

6. Due to Other Governmental Units

County of Fresno has made the required minimum claims deposit to Anthem Blue Cross on behalf of the Authority. The Authority will repay the County of Fresno after receiving refunds from Anthem Blue Cross. The noncurrent due to other governmental units as of June 30, 2012 is \$884,432.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets (Continued)

7. 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.

8. 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 2012 were \$953,519, and the amounts recovered from reinsurers during fiscal year 2012 were \$249,031.

9. Net Assets

Net assets are reported in three categories as follows:

Invested in capital assets, net of related debt – 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 is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

10. 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.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Pronouncements

1. New Accounting Pronouncements Adopted

Governmental Accounting Standards Board Statement No. 64

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This Statement sets forth criteria to establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2012. This statement did not have a significant impact on the Authority's financial statements.

2. New Accounting Pronouncements Not Yet Adopted

Governmental Accounting Standards Board Statement No. 60

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements ("SCAs"), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Application of this Statement is effective for the Authority's fiscal year ending June 30, 2013. The provisions of this Statement are not expected to be applicable to the Authority.

Governmental Accounting Standards Board Statement No. 63

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2013.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Pronouncements (Continued)

2. New Accounting Pronouncements Not Yet Adopted (Continued)

Governmental Accounting Standards Board 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 requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2014.

Governmental Accounting Standards Board 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 requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2014.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. Application of this Statement is effective for the Authority's fiscal year ending June 30, 2013.

Governmental Accounting Standards Board Statement No. 67

In June 2012, GASB issued No. 67, *Financial Reporting for Pension Plans*—an amendment of GASB Statement No. 25. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement No.'s 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2014. The provisions of this Statement are not expected to be applicable to the Authority.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. New Pronouncements (Continued)

2. New Accounting Pronouncements Not Yet Adopted (Continued)

Governmental Accounting Standards Board Statement No. 68

In June 2012, GASB issued 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. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement No.'s 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2015. The provisions of this Statement are not expected to be applicable to the Authority.

Governmental Accounting Standards Board Statement No. 69

In January 2013, the GASB issued Statement No. 69, Government Combinations and Disposals of Government Operations. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement requires disclosure to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2015. The provisions of this Statement are not expected to be applicable to the Authority.

Governmental Accounting Standards Board 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 accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The requirements of this Statement are effective for the Authority's fiscal year ending June 30, 2014. The provisions of this Statement are not expected to be applicable to the Authority.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 2 – CASH AND CASH EQUIVALENTS

Summary of Deposits

Cash and cash equivalents as of June 30, 2012 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and cash equivalents	<u>\$ 8,922,139</u>
Total cash and cash equivalents	<u>\$ 8,922,139</u>

Cash and cash equivalents as of June 30, 2012 consist of the following:

Deposits with financial institutions	<u>\$ 8,922,139</u>
Total cash and cash equivalents	<u>\$ 8,922,139</u>

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. California law also allows financial institutions to secure Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2012, 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 \$3,650,182 as of June 30, 2012 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, 2012, all of the due from other governmental units are considered by management to be collectible. Therefore, no allowance for doubtful accounts has been recognized.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 4 – 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, 2012:

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

Unpaid claims and claim adjustment expenses at beginning of year	\$	-
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year		29,984,544
Increases in provision for insured events of prior years		<u>-</u>
Total incurred claims and claim adjustment expense		<u>29,984,544</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year		23,901,668
Claims and claim adjustment expenses attributable to insured events of prior years		<u>-</u>
Total payment		<u>23,901,668</u>
Total unpaid claims and claim adjustment expenses at end of the year	\$	<u>6,082,876</u>

NOTE 5 – PRIOR PERIOD ADJUSTMENTS

During the current year, it was determined that \$84,459 in expenses were not recorded in the prior year. To correct this error, beginning net assets were decreased by this amount.

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, 2012, the Authority carried insurance through various commercial carriers all risks of losses. No settlements have exceeded coverage levels in place during fiscal year 2012.

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 7 – RISK MANAGEMENT (Continued)

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

<u>Coverage Type</u>	<u>Description</u>	<u>Limit</u>	<u>Deductible</u>
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	\$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, 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 have joined the Authority after June 30, 2012:

- City of Tulare (effective July 1, 2012)
- City of Ceres (effective January 1, 2013)
- City of Waterford (effective June 1, 2013)
- City of Sanger, City of San Joaquin, and City of Shafter (effective July 1, 2013)
- City of Gustine (effective October 1, 2013)
- City of Reedley, City of Wasco, City of Farmersville, City of Riverbank and City of Newman (effective January 1, 2014)

After June 30, 2012 in an effort to continue to expand benefits to its members, the Authority's Board elected to extend its insurance offerings to pool participants to include additional health insurance coverage under Kaiser and Blue Shield. Also, for the first time, the Authority decided to offer dental and vision insurance to its members through Delta Dental, Delta Care USA and VSP-Vision Care.

REQUIRED SUPPLEMENTAL INFORMATION

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

CLAIMS DEVELOPMENT INFORMATION
JUNE 30, 2012

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 fiscal year 2012. Note that only six months of activity is shown for this 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, 2012

	<u>Fiscal Year Ended 2012</u>
(1) Required contribution and investment revenue	
Earned	\$ 37,177,277
Ceded	<u>953,519</u>
Net earned	36,223,758
(2) Unallocated expenses	2,385,290
(3) Estimated claims and expenses, end of fiscal year	
Incurred	30,233,575
Ceded	<u>249,031</u>
Net incurred	29,984,544
(4) Net paid (cumulative) as of:	
End of fiscal year	23,901,668
(5) Reestimated ceded claims and expenses	249,031
(6) Reestimated net incurred claims and expenses:	
End of fiscal year	29,984,544
(7) Increase (decrease) in estimated net incurred losses and expenses from end of fiscal year	-

OTHER INDEPENDENT AUDITOR'S REPORT

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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 the financial statements of the San Joaquin Valley Insurance Authority (the Authority), Fresno, California, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated February 12, 2014. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

677 Scott Avenue
Clovis, CA 93612

tel 559.299.9540
fax 559.299.2344

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

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

Price Pange & Company

Clovis, California
February 12, 2014

SAN JOAQUIN VALLEY INSURANCE AUTHORITY
FRESNO, CALIFORNIA

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) 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.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.