

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

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

**FOR THE YEAR ENDED  
JUNE 30, 2019**

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**JUNE 30, 2019**

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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, 2019, 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.

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## 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, 2019, 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 18-19 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 6, 2020, 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 Pange & Company*

Clovis, California  
March 6, 2020

## BASIC FINANCIAL STATEMENTS

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 2,688,406
Intergovernmental receivables	3,211,319
Investment income receivable	35,338
Prepaid expenses	<u>7,591</u>
 Total current assets	 <u>5,942,654</u>

Noncurrent Assets:

Deposits receivable	977,819
Investments	<u>9,710,504</u>
 Total noncurrent assets	 <u>10,688,323</u>

Total assets	<u>16,630,977</u>
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**LIABILITIES**

Current Liabilities:

Accounts payable	1,332,909
Unearned member contributions	4,925,154
Unpaid claims and claims adjustment expenses	<u>6,924,679</u>
 Total current liabilities	 <u>13,182,742</u>

Noncurrent Liabilities:

Intergovernmental interest payable	392,153
Intergovernmental loan payable	9,000,000
Intergovernmental payables	<u>884,432</u>
 Total noncurrent liabilities	 <u>10,276,585</u>

Total liabilities	<u>23,459,327</u>
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**NET POSITION**

Unrestricted	<u>(6,828,350)</u>
 Total net position	 <u>\$ (6,828,350)</u>

The notes are an integral part of these financial statements.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Operating revenues:	
Member contributions	<u>\$ 81,241,152</u>
Total operating revenues	<u>81,241,152</u>
Operating expenses:	
Claims and claims adjustment expenses	69,869,697
Administrative expenses	<u>6,362,834</u>
Total operating expenses	<u>76,232,531</u>
Operating income (loss)	<u>5,008,621</u>
Nonoperating revenues (expenses):	
Interest expense	<u>(184,379)</u>
Total nonoperating revenues (expenses)	<u>(184,379)</u>
Change in net position	<u>4,824,242</u>
Net position, beginning of year	<u>(11,652,592)</u>
Net position, end of year	<u>\$ (6,828,350)</u>

The notes are an integral part of these financial statements.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Cash flows from operating activities:	
Cash received from members	\$ 110,542,624
Cash received from reinsurance and refunds	2,006,062
Cash paid to vendors	(6,520,333)
Cash paid for claims	<u>(100,189,956)</u>
Net cash provided by (used in) operating activities	<u>5,838,397</u>
Cash flows from investing activities:	
Purchase of investments	<u>(9,710,502)</u>
Net cash provided by (used in) investing activities	<u>(9,710,502)</u>
Net increase (decrease) in cash and cash equivalents	(3,872,105)
Cash and cash equivalents - beginning	<u>6,560,511</u>
Cash and cash equivalents - ending	<u>\$ 2,688,406</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ 184,379</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>	
Operating income (loss)	\$ 5,008,621
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
(Increase) decrease in due from other governmental units	(287,640)
(Increase) decrease in other receivables	158,337
(Increase) decrease in prepaid expenses	(6,480)
Increase (decrease) in accounts payable	(127,120)
Increase (decrease) in due to other governmental units	(30,379)
Increase (decrease) in unpaid claims and claims adjustment expenses	<u>1,123,058</u>
Total adjustments	<u>829,776</u>
Net cash provided by (used in) operating activities	<u>\$ 5,838,397</u>

The notes are an integral part of these financial statements.



## NOTES TO THE BASIC FINANCIAL STATEMENTS

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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 for the purpose of 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 that 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 and the County of Tulare 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, 2019**

**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.

During this fiscal period, there were no new membership applications. As of June 30, 2019, membership in the Authority consists of the County of Fresno, County of Tulare, and City of Marysville.

**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 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.

**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.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. This includes two active bank accounts with JPMorgan Chase Bank, one used for claims funding and the other for reserves.

**2. Investments**

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

**3. Intergovernmental Receivables**

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 intergovernmental receivables in the financial statements.

**4. Deposits Receivable**

The Authority has made the required minimum claims deposit to Anthem Blue Cross. The full deposit amount of \$977,819 will be returned to the Authority when the Authority discontinues the agreement with Anthem Blue Cross.

**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.

**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 \$1,332,909 as of June 30, 2019, 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.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Position (Continued)**

**7. Intergovernmental Payables**

The 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. The full deposit amount of \$884,432 is recognized as a noncurrent intergovernmental payables as of June 30, 2019.

**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 2019 were \$1,263,754, and the amounts recovered from reinsurers during fiscal year 2019 were \$554,547.

**10. Intergovernmental Loans and Interest Payable**

As of June 30, 2018, the Authority has obtained operating loans totaling five million dollars from the County of Fresno and four million dollars from the County of Tulare, each accruing interest at their County's respective treasury pool interest rates. The Authority's interest payable balance for these loans as of June 30, 2019 totals \$392,153. Both loans with interest are expected to be repaid by December 30, 2021 or earlier if sufficient funds are available.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities and Net Position (Continued)**

**11. 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.”

**12. 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**

**A. Summary of Deposits**

Cash and cash equivalents as of June 30, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	<u>\$ 2,688,406</u>
Total cash and cash equivalents	<u>\$ 2,688,406</u>

Cash and cash equivalents as of June 30, 2019 consist of the following:

Deposits with financial institutions	<u>\$ 2,688,406</u>
Total cash and cash equivalents	<u>\$ 2,688,406</u>

**B. 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.

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 2 – CASH AND CASH EQUIVALENTS (Continued)**

**Custodial Credit Risk (Continued)**

As of June 30, 2019, 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 – INTERGOVERNMENTAL RECEIVABLES**

The Authority's current intergovernmental receivables balance of \$3,211,319 as of June 30, 2019 is related to insurance premiums, claims reserve, eligibility administration service fees, consulting fees and other administrative fees due from the County of Fresno. As of June 30, 2019, all of the intergovernmental receivables are considered by management to be collectible. Therefore, no allowance for doubtful accounts has been recognized.

**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, 2019:

	<u>2019</u>	<u>2018</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 5,801,621	\$ 5,148,096
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	<u>69,869,697</u>	<u>68,702,819</u>
Total incurred claims and claim adjustment expense	<u>69,869,697</u>	<u>68,702,819</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	61,794,404	62,178,737
Claims and claim adjustment expenses attributable to insured events of prior years	<u>6,952,235</u>	<u>5,870,557</u>
Total payment	<u>68,746,639</u>	<u>68,049,294</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 6,924,679</u>	<u>\$ 5,801,621</u>

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 5 – LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2019 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Interest Payable	\$ 207,774	\$ 184,379	\$ -	\$ 392,153
Loans Payable	9,000,000	-	-	9,000,000
Intergovernmental Payables	884,432	-	-	884,432
<b>Total</b>	<b><u>\$ 10,092,206</u></b>	<b><u>\$ 184,379</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 10,276,585</u></b>

As of June 30, 2019, the Authority has obtained operating loans totaling five million dollars from the County of Fresno and four million dollars from the County of Tulare. The loans are expected to be repaid by December 30, 2021 (fiscal year 2022) or earlier if sufficient funds are available, each accruing interest at their County's respective treasury pool interest rates. As of June 30, 2019, the interest rates were 2.229% for County of Fresno and 2.2% for County of Tulare. These rates vary quarterly since the Counties invest public funds in a manner, which will provide a market average rate of return consistent with the objectives of the Authority's Investment Policy while meeting the daily cash flow demands of the County's Treasuries and conform to all state laws governing the investment of public funds.

Since the Authority will begin to repay the full loan principal amount with accrued interest in fiscal year 2022, estimated annual debt service requirements for the loan are demonstrated in the table below. Note that calculated total interest equals the current amount of accrued interest and projected interest expense accruals based on current treasury rates up to the loan repayment date.

Annual debt service requirements for the loan are as follows:

Year Ending June 30	County of Fresno Principal	County of Tulare Principal	Interest
2022	\$ <u>5,000,000</u>	\$ <u>4,000,000</u>	\$ <u>791,053</u>
Total	\$ <u>5,000,000</u>	\$ <u>4,000,000</u>	\$ <u>791,053</u>

**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.



**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**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, 2019, the Authority carried insurance through various commercial carriers for all risks of losses. No settlements have exceeded coverage levels in place during the fiscal year 2018-2019.

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.	\$15 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**

As of March 6, 2020, membership in the Authority consists of the County of Fresno and the County of Tulare, both of which are the Authority's founding entities. The City of Marysville elected to leave the Authority at the end of the 2019 calendar year.

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REQUIRED SUPPLEMENTARY INFORMATION

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**CLAIMS DEVELOPMENT INFORMATION**  
**JUNE 30, 2019**

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 four 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, 2019**

	2012	2013	2014	2015	2016	2017	2018	2019
(1) Required contribution and investment revenue:								
Earned	\$ 37,177,277	\$ 71,106,229	\$ 83,391,236	\$ 89,887,953	\$ 110,381,036	\$ 101,397,579	\$ 80,398,094	\$ 82,018,812
Ceded	953,519	1,911,418	1,940,663	2,244,758	2,761,514	2,235,292	1,881,130	1,263,754
Net earned	36,223,758	69,194,811	81,450,573	87,643,195	107,619,522	99,162,287	78,516,964	80,755,058
(2) Unallocated expenses	2,385,290	5,000,268	6,159,114	6,917,501	7,622,465	6,308,763	5,709,359	6,362,834
(3) Estimated claims and expenses, end of fiscal year:								
Incurred	30,233,575	67,195,841	75,886,191	86,497,444	111,419,173	98,934,822	68,802,180	70,424,244
Ceded	249,031	1,555,632	1,362,659	1,302,386	198,626	323,314	99,361	554,547
Net incurred	29,984,544	65,640,209	74,523,532	85,195,058	111,220,547	98,611,508	68,702,819	69,869,697
(4) Net paid (cumulative) as of:								
End of fiscal year	23,901,668	57,532,430	67,720,407	77,594,079	100,151,412	92,775,406	65,559,526	72,139,822
One year later	28,318,935	63,725,119	77,893,672	81,850,351	100,151,412	92,775,406	65,559,526	-
Two years later	27,175,135	63,726,540	77,893,672	81,850,351	100,151,412	92,775,406	-	-
Three years later	27,175,135	63,726,540	77,893,672	81,850,351	100,151,412	-	-	-
Four years later	27,175,135	63,726,540	77,893,672	81,850,351	-	-	-	-
Five years later	27,157,135	63,726,540	77,893,672	-	-	-	-	-
Six years later	27,157,135	63,726,540	-	-	-	-	-	-
Eight years later	27,157,135	-	-	-	-	-	-	-
(5) Reestimated ceded claims and expenses	249,031	1,555,632	1,362,659	1,302,386	198,626	323,314	99,361	554,547
(6) Reestimated net incurred claims and expenses:								
End of fiscal year	29,984,544	65,640,209	74,523,532	85,195,058	111,220,547	98,611,508	68,702,819	69,869,697
One year later	28,324,433	63,726,540	74,523,532	85,195,058	111,220,547	98,611,508	68,702,819	-
Two years later	27,175,135	63,726,540	74,523,532	85,195,058	111,220,547	98,611,508	-	-
Three years later	27,175,135	63,726,540	74,523,532	85,195,058	111,220,547	-	-	-
Four years later	27,175,135	63,726,540	74,523,532	85,195,058	-	-	-	-
Five years later	27,175,135	63,726,540	74,523,532	-	-	-	-	-
Six years later	27,175,135	63,726,540	-	-	-	-	-	-
Eight years later	27,175,135	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated net incurred losses and expenses from end of fiscal year	\$ (2,809,409)	\$ (1,913,669)	\$ (2,809,409)	\$ (1,913,669)	\$ -	\$ -	\$ -	\$ -

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OTHER INDEPENDENT AUDITOR'S REPORT

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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), a component unit of the County of Fresno, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 6, 2020.

**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.

570 N. Magnolia Avenue, Suite 100  
Clovis, CA 93611

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 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 Pange & Company*

Clovis, California  
March 6, 2020

**SAN JOAQUIN VALLEY INSURANCE AUTHORITY**  
**FRESNO, CALIFORNIA**

**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.