



GOLDEN STATE RISK MANAGEMENT AUTHORITY

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2018 AND 2017**

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GOLDEN STATE RISK MANAGEMENT AUTHORITY

BOARD OF DIRECTORS

JUNE 30, 2018

JOHN VIEGAS – PRESIDENT

County Representative

KEITH CORUM – VICE PRESIDENT

County Representative

ANDY ROBERTS - MEMBER

City Representative

RICK BEALE - MEMBER

Cemetery Representative

DOUG TURNER - MEMBER

Fire District Representative

SARBDEEP ATWAL - MEMBER

Special District Representative

JAMES “BUCK” WARD – MEMBER

School District Representative

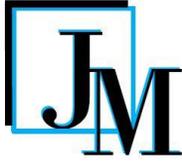
SCOTT SCHIMKE, ARM - RISK MANAGER

Golden State Risk Management Authority

GOLDEN STATE RISK MANAGEMENT AUTHORITY

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James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Golden State Risk Management Authority
Willows, California

Report on the Financial Statements

We have audited the accompanying Statement of Net Position of Golden State Risk Management Authority (GSRMA) as of June 30, 2018 and 2017, and the related Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Golden State Risk Management Authority as of June 30, 2018 and 2017 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America, as well as accounting systems prescribed by the State Controller's Office and state regulations governing special districts.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Reconciliation of Claims Liabilities by Type of Contract, and Claims Development Information on pages 4-12 and 28-31, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements of GSRMA. The Supplementary Information, as shown on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Graphical Summary of Claims is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Graphical Summary of Claims is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2019 on our consideration of Golden State Risk Management Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering GSRMA's internal control over financial reporting and compliance.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
January 25, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

As the management of Golden State Risk Management Authority (GSRMA), we offer readers of GSRMA's financial statements this narrative overview and analysis of the financial activities of GSRMA for the fiscal years ended June 30, 2018, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the additional information in the fiscal audit contained herein.

BACKGROUND

The Golden State Risk Management Authority (GSRMA) was originally formed on July 1, 1979 under the name Glenn County Joint Powers Authority (GCJPA). It was created as a direct result of the "hard" insurance market public agencies dealt with in the mid-1970s. It was established and is governed by Government Code Section 6500, et seq.

In response to continued inquiries by public agencies physically located outside of Glenn County, GCJPA was renamed Golden State Risk Management Authority (GSRMA), effective July 1, 2000. This name was adopted by the Board to better identify the JPA with its current and future membership.

A seven (7) person Board, as established in its by-laws, governs GSRMA. The Board is comprised of two members from the Board of Supervisors of a member county (John Viegas and Keith Corum, County of Glenn), one member from the City Council of a member city (Andy Roberts, City of Dorris), one member from the Board of Trustees of a member school district (James "Buck" Ward, Willows Unified School District), one member from the Board of Directors from a member cemetery district (Rick Beale, Orland Cemetery District), one member from the Board of Directors of a member fire protection district (Doug Turner, Williams Fire Protection Authority) and one member from the Board of Directors of a member special district (Sarbddeep Atwal, Reclamation District No. 784).

The Risk Manager and staff conduct the day-to-day administration and operation of policies and procedures as set forth by the Authority's Joint Powers Agreement, By-Laws, and Board of Directors.

FINANCIAL HIGHLIGHTS

- Total revenue, from all sources including investments, was \$17.2 Million, an increase of 7.9% or \$1.26 Million from 2016/2017. The increase was due to a roughly 10% or \$730K increase in workers' compensation and liability contributions and an increase of 4.4% or \$325K in health plan premium. Property increased 17.4% or \$145K and investment interest revenue increased 60% or \$37K.
- Total expenses were \$16 Million, which was essentially no change from 2016/2017. This deviates from the prior 2 years of a 7.5% increase. Net claims paid decreased 6.3% or \$235K while excess insurance rose 14% or \$222K excluding the employee benefits program. The actuarial estimate for total claims increased \$134K which was 85% less than the 2016/2017 increase of \$863K. Administrative costs increased 13.5% or \$266K. This was mostly due to an increase in the management expense resulting from the increase in member contributions on which it is based. In addition, the management fee percentage increased 1% as well.
- GSRMA assets of \$21.7 Million exceeded its liabilities of \$15.7 Million at June 30, 2018 by \$6.1 Million. This amount increased \$1.2 Million since the end of last year. This was due mainly to the slow growth of claims cost in relation to the increase in revenue. This compares to a \$150K

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

decrease in net position in 2016/2017. The \$6.1 Million of fund equity may be used to meet GSRMA's ongoing obligations to members, claimants and creditors.

OVERVIEW OF THE FINANCIAL STATEMENTS

This management's discussion and analysis is intended to serve as an introduction to GSRMA's basic financial statements.

Accounting principles generally accepted in the United States of America require financial statements to distinguish functions of the government that are principally supported by taxes and intergovernmental revenues, referred to as "governmental activities" from other functions that are intended to recover all, or a significant portion, of their cost through user fees and charges, referred to as "business-type activities". All of the activities of GSRMA are classified as "business-type activities". These activities include the development and operation of a public entity risk pool and the purchase of insurance and services for members.

GSRMA's financial statements are prepared in conformity with generally accepted accounting principles and include amounts based upon reliable estimates and judgments. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows are included along with Notes to the Financial Statements to clarify unique accounting policies and financial information. The Statements of Net Position provides information on all the Authority assets and liabilities, with the difference reported as Net Position. Net Position may be an indicator of the overall pool financial status. The Statements of Revenues, Expenses, and Changes in Net Position present information showing total revenue and expense and the resulting effect on Net Position. The Statements of Cash Flows presents information about the cash receipts and cash payments during the year.

James Marta & Company, Certified Public Accountants, has performed independent audit examinations of our financial statements. The opinion on the Authority's financial statements as of June 30, 2018 is included in page 2 of this report.

GSRMA maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial account for its one risk management and insurance pool.

Condensed versions of the financial statements on the next page are provided by management and comply with GASB requirements to show three years of comparisons.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

*Condensed Statements of Net Position
Fiscal years ended June 30, 2018, 2017, 2016*

	June 30, 2018	June 30, 2017	Increase/ (Decrease) 2018 to 2017	June 30, 2016	Increase/ (Decrease) 2017 to 2016
Assets:					
Current Assets	\$ 11,805,396	\$ 11,051,597	\$ 753,799	\$ 11,881,898	\$ (830,301)
Non-Current Assets	9,928,580	9,768,664	159,916	7,910,670	1,857,994
Total Assets	<u>21,733,976</u>	<u>20,820,261</u>	<u>913,715</u>	<u>19,792,568</u>	<u>1,027,693</u>
Liabilities:					
Current Liabilities	5,405,445	5,668,070	(262,625)	4,522,771	1,145,299
Noncurrent Liabilities	10,250,805	10,251,023	(218)	10,221,807	29,216
Total Liabilities	<u>15,656,250</u>	<u>15,919,093</u>	<u>(262,843)</u>	<u>14,744,578</u>	<u>1,174,515</u>
<i>Net Position</i>	<u>\$ 6,077,726</u>	<u>\$ 4,901,168</u>	<u>\$ 1,176,558</u>	<u>\$ 5,047,990</u>	<u>\$ (146,822)</u>

*Condensed Statements of Revenue, Expenses, and Changes in Net Position
Fiscal years ended June 30, 2018, 2017, 2016*

	June 30, 2018	June 30, 2017	Increase/ (Decrease) 2018 to 2017	June 30, 2016	Increase/ (Decrease) 2017 to 2016
Operating Income					
Operating Revenues	\$ 17,105,564	\$ 15,878,137	\$ 1,227,427	\$ 15,122,641	\$ 755,496
Operating Expenses	16,027,439	16,086,390	(58,951)	14,878,636	1,207,754
Operating income (loss)	1,078,125	(208,253)	1,286,378	244,005	(452,258)
Non-operating revenue - investment income	98,433	61,431	37,002	200,641	(139,210)
Increase (decrease) in net position	1,176,558	(146,822)	<u>\$ 1,323,380</u>	444,646	<u>\$ (591,468)</u>
Net position - beginning of year	<u>4,901,168</u>	<u>5,047,990</u>		<u>4,603,344</u>	
Net position - end of year	<u>\$ 6,077,726</u>	<u>\$ 4,901,168</u>		<u>\$ 5,047,990</u>	

Total non-employee-benefits contribution revenues increased 10.4% or \$879K over 2016/2017. The increase was due to both an increase in estimated payroll and an increase in rates. Estimated payroll increased approximately 4.0% from 2016/2017. Rates for most lines of coverage increased due to several factors including an increase in rates from our primary excess carrier and the increase in admin expense.

Net investment income increased fairly significantly as investments with lower yields matured and were replaced by those with higher yields and market value. This trend should continue as interest rates increase.

The employee benefits participation increased to 45 members covering a total 1,800 lives - an increase of roughly 150 lives from the prior year. Though this is mostly a "pass-through" product provided for the benefit of our members, its increased growth does have a small positive affect to pool net revenues.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Insurance Premiums. The insurance premium revenues and the expenses are dependent on the cyclical insurance market. Currently, the market for workers' compensation is fairly flat in relation to recent prior years. Liability rates are edging up and we expect a significant jump in rates in the coming year as tort claim expenses are increasing significantly. Recent years have been challenging for property insurers due to numerous fire and weather caused disasters in the United States. Property rates are increasing as well and will remain higher for some time. Overall, GSRMA should expect to see excess rates increase especially for liability and property.

Provision for Insured Events. The provision for insured events is a management estimate of the cost of insured claims. This estimate is based on a variety of actuarial and statistical techniques considering claims history, claim payment history, claim frequency, changes in doctrines of legal liability, inflation and other economic and social factors. Claim cost estimates are constantly re-evaluated. Changes to prior year claim cost are adjusted as they occur. The provision increased for 2017/2018 though not significantly compared to the prior year.

Financial Summary

During the fiscal year 2017/2018, the overall financial picture of GSRMA strengthened significantly due to higher revenues and lower than expected claims costs. The result is that net position increased almost \$1.2 Million or 24%. This is compared to last year's decrease of \$147K or nearly 3%. Since this amount can change significantly from year to year, this is not unexpected. The pool remains adequately and conservatively funded at the 85% confidence level.

MEMBERSHIP

As of June 30, 2018, GSRMA had two-hundred seventy-four (274) member agencies. Current membership categories include: Counties, Cities, School Districts, Fire Districts, Cemetery Districts, and Special Districts. The management of GSRMA has identified additional potential member sources in these categories and expects new member growth in 2018/2019 to be approximately 2-3%.

SERVICES AND PROGRAMS

General Liability Program

The General Liability program started in 1979 as a self-insured program. Currently all claims covered under GSRMA's Memorandum of Coverage and Certificates of Coverage are adjusted in-house by staff. The program has several excess layers in place. Specifically, GSRMA places all of its non-schools excess coverage and a minor portion of its schools excess coverage through CSAC-Excess Insurance Authority (CSAC-EIA). GSRMA places the majority of its school-related coverage through the Schools Excess Liability Fund (SELF). The 2017/2018 Self Insured Retention (SIR) for schools and non-schools alike was \$250K per occurrence.

Program contribution rate guidelines are presented at the March Board of Directors meeting. They are formally adopted at the May Board of Directors meeting. Rates are calculated based on an annual actuarial study, the fiscal needs of the pool, the loss experience of each individual member agency, and loss exposure indicators such as member annual budgets, number of employees and payroll.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Workers' Compensation Program

The Workers' Compensation program was created on July 1, 1979. Currently all claims covered under GSRMA's Memorandum of Coverage and Certificate of Coverage are adjusted in-house by staff.

Program contribution rate guidelines are presented at the March Board of Directors meeting and formally adopted at the May Board of Directors meeting. Rates are calculated based on an annual actuarial study of the financial needs of the pool, the loss experience of each individual member agency, and loss exposure indicators such as number of employees, job classifications and payroll.

GSRMA procures its excess workers' compensation coverage through CSAC-EIA. The 2017/2018 Self Insured Retention (SIR) was \$300K per occurrence. GSRMA utilizes the Workers' Compensation Program to cover all member agency employees and volunteers who are injured during the course and scope of their employment. The coverage includes payment for:

- Medical Costs
- Temporary Disability
- Permanent Disability

A nurse triage program is in use by nearly all of our members. The nurse triage program allows members to phone a nurse-on-call service when a workplace injury occurs. The nurse triages the injury, suggests treatment options and then completes the forms that otherwise would need to be completed by the member. The service then forwards the forms to GSRMA. This process greatly improves efficiency and quality of service to our members.

In addition, GSRMA utilizes a medical bill review service, a pharmacy management service and nurse case managers to help reduce costs in the workers' compensation program.

Property Program

The Property Program was created in 1979. It is a group purchase program that combines the insured values of all member agencies to obtain the broadest coverages at the lowest cost. Currently GSRMA participates in CSAC-EIA's Property Program which has tremendous participation by California counties, cities and special districts. Total insured value of GSRMA member property is \$620 million.

The program allows GSRMA to offer its members an "All-risk" full replacement cost Property Program with \$600 million per occurrence in limits at a cost that is far below typical market rates. GSRMA's deductible is \$5,000 per occurrence and its member agencies have a \$1,000 per occurrence deductible. Rates are calculated based on relative amount of property covered for each member.

Miscellaneous Coverages

GSRMA provides its membership several outstanding miscellaneous insurance programs on a group purchase basis. These types of coverages include: Aviation, Crime, Cyber Liability, Pollution, Special Events and Watercraft.

These miscellaneous programs are placed through CSAC-EIA. They are very competitively priced for today's insurance market.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Employee Benefits

GSRMA offers its members employee insurance products including health insurance, group dental, vision, life and accidental death & disability. At the end of the 2017/2018 fiscal year, the program had grown to cover approximately 1,800 lives in 45 member entities. GSRMA management expects this program to continue to grow.

Loss Prevention and Training

GSRMA is a strong proponent of loss prevention and safety training activities. Led by Assistant Risk Manager, Jennifer Peters and staffed by Safety Officer Mark Marshall and Safety and Loss Prevention Specialists Betsey Downey and Steve Wood, the Loss Prevention department provided nearly 350 on-site inspections and trainings for over 1,000 employees during 2017/2018. In addition, 3,300 online classes were taken by member employees on the Target Solutions platform. As requests from members for such training has continued to increase, more emphasis is being placed on conducting regional trainings which are a more efficient method of delivering in-person training.

GSRMA provides its members with the Loss Prevention Subsidy Fund (LPSF), a grant program to help members offset their third-party loss prevention and safety training. In 2017/2018, thirty members utilized over \$22,000 from this Subsidy fund. Another GSRMA program, the Risk Management Accreditation Program (RMAP) was recently launched to replace the Loss Prevention Incentive Program (LPIP). The RMAP provides contribution reduction incentives to member agencies as a result of specific loss prevention activities that they complete. Fiscal year 2017/2018 was the eleventh year of LPIP/RMAP incentives and forty-five member districts received credits totaling \$319,000.

We continue to expand and improve various safety and training programs within GSRMA.

Annually, GSRMA provides its membership with an extensive Orientation and Training conference. For 2017/2018, the conference was held in Corning, California. Loss Prevention expert, Gordon Graham, presented strategies to incorporate risk management and loss prevention in our organizations. The second day of the conference included three breakout sessions focusing on marijuana in the workplace, managing HR risks in K-12 schools and fiscal challenges faced by public cemeteries.

Membership Communication

GSRMA provides its membership with an informative and useful website: www.gsrma.org. The site content is updated regularly. Forms, a calendar, contact information and more are available online. A blog of short informational articles and answers to frequently asked questions is maintained on the website as well.

A member portal is available separately also. It allows members to review their specific information such as description of coverage, property inventories, contact information and perform a variety of data maintenance and sharing tasks.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Services

GSRMA currently has a Special Events Program in place. This program allows member agencies the ability to refer liability coverage to any individual or organization wanting to use their district facilities. This is an excellent risk transfer program with limits of \$1 million per occurrence.

Members are provided access to Target Solutions' web-based application for training, certification tracking and member communication. Roughly 3,300 classes and training activities were completed by member employees in 2017/2018.

WeTip is an anonymous crime reporting system. It helps in the identification and resolution of crimes against our members and acts as a crime deterrent. The service has been instrumental in recovering member property and solving crimes.

The HR Legal Resource Program offers members access to human resource attorneys enabling them to receive legal advice regarding employment-related issues at no cost.

GSRMA is able to provide access to a large number of high-quality risk management and loss prevention services offered by its excess carriers, CSAC-EIA and SELF. In addition, Alliant Insurance Services, the insurance broker used by CSAC-EIA and GSRMA, provides many valuable services including contract review, an Insurance Requirements In Contracts (IRIC) manual and periodic appraisals of members' property.

Finally, GSRMA staff offer site inspection, playground inspection and ergonomic evaluation services.

CAJPA ACCREDITATION

GSRMA voluntarily undergoes a thorough review of all operations through the California Association of Joint Powers Authorities' (CAJPA's) Accreditation process. This is a very detailed audit conducted by an independent consultant and subject to CAJPA's exacting standards. Since 1992 GSRMA has maintained CAJPA'S highest award: "Accreditation with Excellence." GSRMA most recently completed this tri-annual process in the spring of 2016 and is scheduled to do so again in 2019.

FINANCIAL MANAGEMENT AND CONTROL

GSRMA management is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

GSRMA has adopted a conservative investment policy according to state guidelines designed to optimize the rate of return on available assets not required for current operations while still keeping these assets readily available.

Budgetary control is provided by verification of budgeted amounts prior to expenditures and analysis of all account totals compared to budgeted amounts. Detailed reports of budget to-actual comparisons, as well as basic financial statements, are provided to the JPA Board at each of their meetings. In addition, an Investment Report is provided to the Board and posted for public review on the website quarterly. Also,

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

disbursement and bank transactional reports are reviewed by the Executive Director and/or the Board Officers regularly.

INSURANCE MARKET CONDITIONS AND OUTLOOK

As a “primary coverage” insurance pool, GSRMA relies heavily on the transfer of risk to excess coverage pools and reinsurance. Currently, GSRMA uses CSAC Excess Insurance Authority (CSAC-EIA) and, specifically for its school members, Schools Excess Liability Fund (SELF) for excess coverage. GSRMA and these excess programs are impacted by the insurance market which, in turn, is greatly influenced by a number of conditions.

GSRMA, and its excess insurance providers, face an “upward” phase of the property insurance market. The property losses resulting from last season’s three hurricanes and, specifically in California, a significant amount of fire losses, will very likely result in increased property rates for the near future.

GSRMA and its members should see only minor increase in workers’ compensation rates. A number of items, mostly minor on their own, combine to push workers’ compensation rates up. For example, auto-increases in indemnity payments were built into recent legislative reforms. Also, California’s Office of Self Insured Plans continues to increase its annual fees. In addition, medical costs continue to increase and negatively affect the costs of many claims. A larger issue for our pool is the increasing costs of workers’ compensation coverage for safety personnel. Presumptive (where it is presumed, by law, that serious illnesses such as heart conditions and cancer are work related for safety personnel even after retirement) are resulting in significant increases in costs for these employee classes.

Most significantly, liability costs are expected to rise considerably. The increase of recent tort claims, in both frequency and cost, has caused excess carriers to raise their rates for the upcoming year. We are expecting increases of up to 50% for this coverage. Many expect that it will take years for any tort reform to occur, if it is even possible in California. In light of this, we expect to see an increase in costs and decrease in coverage for liability coverage for the foreseeable future.

The returns for safe investments vehicles continue to improve and is beginning to make some impact in offsetting increasing costs. The Local Agency Investment Fund (LAIF) is returning well over 2% and this return is expected to continue to increase. Our investment advisors continue to use an aggressive investment strategy while remaining within the State guidelines and we expect to see continuing positive results from their efforts.

GSRMA continues to benefit from ongoing upgrades and enhancements to its operational software. Data analytics is the current focus of the industry, our excess carriers, and GSRMA as well. We continue to make progress in using predictive analytics, loss-cause analysis and member district education to positively affect the frequency and severity of claims though we are in the early stages of this endeavor.

At this time, due to the diligence and fiscally conservative nature of their governing boards, GSRMA and its excess pools, are in solid financial position. However, these pools will need to continue to be vigilant and conservative to maintain this position during these challenging times.

For the future, the following are negative factors that will impact GSRMA:

Past case law and legislative activity has resulted in increased costs and a negative financial impact on the

GOLDEN STATE RISK MANAGEMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

workers' compensation program. AB 2253 (public safety employees cancer presumptive), signed into law late in 2010, is having a significant negative impact on claims cost. Legislation that will result in increased workers' compensation costs continues to be introduced annually and is having some success in being signed by the Governor. It is possible that the newly elected one-party super-majority legislature and new governor may result in additional costly legislation.

Many special districts in California continue to struggle financially - including the members of GSRMA. In particular, the need to shift operating funds toward underfunded retirement systems and increasingly expensive employee benefits is putting significant pressure on many districts. These struggles could continue to negatively affect the budgets of these members including their employee counts and total payroll amounts as well as their ability to pay their contributions to the pool.

It is expected that state, federal and business partner reporting requirements will continue to increase in both the amount of data required and the complexity of the reporting requirements. This increases costs due to changes and additions of software and systems to meet these requirements as well as staff or contractor time to manage them. In addition, these agencies are increasing the fees they charge our industry in order to finance their expanding activity.

Liability claims costs in California continue to soar as awards and settlements increase in both frequency and, especially, dollar size. Tort reform would help but it will be some time before that might occur, if ever. We expect to see tighter coverage limits and coverage exclusions as carriers try to mitigate potential losses in this volatile segment.

Future positive impacts on GSRMA include:

Improved administrative processes will continue to streamline the operation of this pool. Claims processing and pool management software are being more fully implemented and should result in more efficient claims processing and pool administration. These ongoing improvements should allow us to adequately respond to a continued increase of reporting requirements and regulation by carriers and from state agencies.

Efforts to produce and use analytics both with GSRMA member data and in conjunction with data from other like risk organizations are beginning to show promise of allowing us quicker recognition of and response to potential losses. This may decrease claims costs and increase overall pool efficiency.

We are beginning to see the positive results from increased investment returns. This should help in offsetting increasing costs. Notably related to this, our excess carriers are benefiting from the increase as well.

The State budget has recovered and revenue continues to exceed budgeted amounts. This continues to relieve some pressure on member budgets and has allowed them to restore some of their lost payroll funding. Pending significant economic downturn, public entity funding in California is stronger than it has been in some time.

Overall, GSRMA remains in a strong fiscal position that, barring loss of significant membership, should remain so for the foreseeable future.

BASIC FINANCIAL STATEMENTS

GOLDEN STATE RISK MANAGEMENT AUTHORITY

STATEMENT OF NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,920,873	\$ 8,098,041
Interest receivable	71,778	41,106
Investments maturing within one year	2,975,582	1,928,134
Accounts receivable	113,079	365,743
Prepaid expenses	724,084	618,573
Total Current Assets	<u>11,805,396</u>	<u>11,051,597</u>
Noncurrent Assets		
Investments, at market	<u>9,928,580</u>	<u>9,768,664</u>
Total Assets	<u>21,733,976</u>	<u>20,820,261</u>
LIABILITIES		
Current Liabilities		
Accounts payable	19,027	78,880
Current portion of assessment payable	34,180	34,180
Unearned revenue	1,852,238	2,155,010
Current portion of unpaid claims and claim adjustment expense	<u>3,500,000</u>	<u>3,400,000</u>
Total Current Liabilities	<u>5,405,445</u>	<u>5,668,070</u>
Noncurrent Liabilities		
Assessment payable	136,721	170,901
Unpaid claims and claim adjustment expense	<u>10,114,084</u>	<u>10,080,122</u>
Total Noncurrent Liabilities	<u>10,250,805</u>	<u>10,251,023</u>
Total Liabilities	<u>15,656,250</u>	<u>15,919,093</u>
NET POSITION		
Net Position	<u>\$ 6,077,726</u>	<u>\$ 4,901,168</u>

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
REVENUES		
Member contributions	\$ 17,056,348	\$ 15,852,104
Other income	49,216	26,033
	<hr/>	<hr/>
Total Operating Revenues	17,105,564	15,878,137
	<hr/>	<hr/>
OPERATING EXPENSES		
Provision for unpaid claims and claim adjustment expenses	3,650,392	4,613,747
Insurance expense	9,366,846	8,831,536
Claims administration	774,872	672,321
General and administrative expenses		
Professional services	452,837	405,197
Loss control services	755,169	650,444
Risk management services	849,333	756,101
Other administrative expenses	177,990	157,044
Total general and administrative expenses	2,235,329	1,968,786
	<hr/>	<hr/>
Total Operating Expenses	16,027,439	16,086,390
	<hr/>	<hr/>
Operating Income	1,078,125	(208,253)
	<hr/>	<hr/>
NONOPERATING REVENUES		
Investment income	98,433	61,431
	<hr/>	<hr/>
Change in Net Position	1,176,558	(146,822)
	<hr/>	<hr/>
Net Position, Beginning of Period	4,901,168	5,047,990
	<hr/>	<hr/>
Net Position, End of Period	\$ 6,077,726	\$ 4,901,168
	<hr/> <hr/>	<hr/> <hr/>

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Contributions received	\$ 17,055,456	\$ 16,155,687
Claims expenses paid	(4,291,302)	(4,422,672)
Dividends paid	-	(236,044)
Insurance premiums paid	(9,506,537)	(8,831,482)
General and administrative expenses paid	(2,295,182)	(1,958,085)
Net Cash Flows Provided (Used) by Operating Activities	<u>962,435</u>	<u>707,404</u>
Cash Flows From Investing Activities		
Investment income received	247,577	99,567
Payments for purchases of investments	(5,421,979)	(9,817,300)
Proceeds from sales and maturities of investments	4,034,799	9,929,311
Net Cash Flows Provided (Used) by Investing Activities	<u>(1,139,603)</u>	<u>211,578</u>
Net Increase (Decrease) in Cash	(177,168)	918,982
Beginning Cash and Cash Equivalents	8,098,041	7,179,059
Ending Cash and Cash Equivalents	<u>\$ 7,920,873</u>	<u>\$ 8,098,041</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 1,078,125	\$ (208,253)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:		
(Increase) Decrease in:		
Member receivable	252,664	(293,092)
Prepaid expenses	(105,511)	34,234
Increase (Decrease) in:		
Accounts payable	(59,853)	10,701
Assessment payable	(34,180)	(34,180)
Dividends payable	-	(236,044)
Unearned revenue	(302,772)	570,642
Claims liability	133,962	863,396
Net Cash Provided (Used) by Operating Activities	<u>\$ 962,435</u>	<u>\$ 707,404</u>
Supplementary Information		
Noncash Investing and Financing Transactions		
Change in fair market value of investments	<u>\$ (179,816)</u>	<u>\$ (42,691)</u>

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The Golden State Risk Management Authority (GSRMA) was established by a Joint Powers Agreement (JPA) on April 1979 in accordance with Title I, Division 7, Chapter 5, Article I, Section 6500 of the California Government Code for the purpose of providing Property, Liability, and Workers' Compensation coverage to its members.

Membership

As of June 30, 2018, membership of the various programs is as follows:

	<u>Liability</u>	<u>Property</u>	<u>Workers'</u> <u>Compensation</u>	<u>Health</u> <u>Benefits</u>
Counties	1	1	1	-
Cities	5	5	5	5
Fire districts	49	49	47	3
Schools	8	8	8	1
Special districts	94	82	46	19
Cemetery districts	119	119	99	18
Total	<u>276</u>	<u>264</u>	<u>206</u>	<u>46</u>

Admission

Governmental entities may join the group upon approval of the Board of Directors. Entities joining the group must remain members for a minimum of three years.

Withdrawal

Members may withdraw from the JPA upon advance written notice twelve months prior to the close of the fiscal year. The effect of withdrawal (or termination), for the pooling programs, does not terminate the responsibility of the members to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

B. DESCRIPTION OF PROGRAMS

Workers' Compensation

The Workers' Compensation Fund was established in 1979 to account for the payment of workers' compensation claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

Self -insured coverage at June 30, 2018:

<i>JPA's SIR:</i>	\$300,000
<i>Excess Carrier:</i>	\$300,001 to Statutory Limits

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Property/Liability

Liability

The Liability Program was established in 1979 to account for the payment of liability claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

<i>Member Deductible:</i>	\$0 liability per occurrence.
<i>GSRMA SIR:</i>	\$250,000 per occurrence.
<i>Excess:</i>	\$250,001 to \$50 million per occurrence.

Property

The Property Program was established in 1979 to account for the payment of property claims and administrative costs. Funding is based upon rates established by the Joint Powers Board.

<i>Member Deductible:</i>	\$1,000 per occurrence.
<i>JPA's SIR:</i>	\$1,001 to \$5,000 per occurrence.
<i>Excess Insurance:</i>	\$5,001 to Total Insured Value (TIV) up to \$600 million per covered loss

Employee Benefits

Beginning in July 2007, GSRMA offered its members employee insurance products including health insurance, group dental and vision, life and disability. At the end of the 2017/2018 fiscal year, the program had grown to approximately 1,800 enrollees in 46 member entities.

C. REPORTING ENTITY

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

GSRMA has developed criteria to determine whether other entities with activities that benefit GSRMA should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationship).

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

D. BASIS OF ACCOUNTING

These statements are prepared on the economic resources measurement focus and accrual basis of accounting. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been received, except when a premium deficiency exists where unearned premiums are recognized currently in accordance with GASB pronouncements. GSRMA maintains one insurance fund; however, separate program accounting is maintained for each program's revenues, expenses and related reserves. The claims program funds are considered proprietary/enterprise fund type. GSRMA applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations, except where superseded by GASB pronouncements.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are described elsewhere in this report.

F. CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, cash and cash equivalents include cash in bank, cash with the Local Agency Investment Fund (LAIF), Certificate of Deposits (CD's), and all highly liquid debt instruments purchased with an original maturity of three months or less.

G. RECEIVABLES

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible. At June 30, 2018 and 2017 the total accounts receivable portfolio was considered collectible. Interest on investments is recorded in the year the interest is earned.

H. INVESTMENTS

GSRMA records its investments and cash in LAIF at fair market value. Changes in fair market value are reported as revenue in the Statements of Revenues, Expenses, and Changes in Net Position. The effect of recording investments and LAIF at fair market value is reflected as a net change in the fair value of investments on the Statements of Revenues, Expenses, and Changes in Net Position and on the Statements of Net Position. Fair market values of investments and LAIF have been determined by the sponsoring government based on quoted market prices. GSRMA's investments in LAIF have been valued based on the relative fair value of the entire external pool to the external pool's respective amortized cost.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

I. UNEARNED REVENUE/PREPAID EXPENSES

The policy year-end for the property, liability, and workers' compensation programs is June 30. As such, certain revenues collected prior to the beginning of the fiscal year are treated as deferred and certain expenses benefiting the subsequent year as prepaid. This is to reflect a proper matching of revenues and expenses for the fiscal year-end financial statements.

J. UNPAID CLAIMS LIABILITIES (CLAIMS RESERVES AND CLAIMS INCURRED BUT NOT REPORTED)

Each program establishes claims liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

K. UNALLOCATED LOSS ADJUSTMENT EXPENSE

The liability for unallocated loss adjustment expense includes all costs expected to be incurred in connection with the settlement of unpaid claims that cannot be related to a specific claim. Management has estimated the accrual based on past experience and the amount is included in claims expense.

L. EXCESS INSURANCE

GSRMA purchases specific occurrence excess insurance from commercial carriers for the property and liability programs. The coverage for losses above the corresponding policy year's specified self-insured retention (SIR) is limited to that policy year's excess coverage limit.

M. INCOME TAXES

GSRMA's income is exempt from federal income taxes under Internal Revenue Service Section 115, which excludes income derived from the exercise of any essential governmental function and accrues to a state political subdivision.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

N. OPERATING AND NONOPERATING REVENUES

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. Since GSRMA discounts claims liabilities, the pool considers anticipated investment income in determining if a premium deficiency exists. Operating revenue includes member contributions and fees, which are an integral part of the operations and financing of the covered risks and activities. Non-operating income includes material activities that are not part of the core risk financing activities of the entity and investment income.

Revenues mainly consist of premium contributions from members. Contribution development is performed by actuaries and the Board of Directors based on the particular characteristics of the members. Contribution income consists of payments from members that are planned to match the expense of insurance premiums for coverage in excess of self-insured amounts, estimated payments resulting from self-insurance programs, and operating expenses. The activities of GSRMA consist solely of risk management programs and claims management activities related to the coverages described above. The reporting entity does not include any other component units with the criterion prescribed by GAAP.

O. MEMBER CONTRIBUTIONS

Member contributions are recognized as revenues in the period for which insurance protection is provided. If GSRMA's Board of Directors determines that the insurance funds for a program, including any anticipated investment income, are insufficient to pay losses, GSRMA may impose a supplemental assessment on all participating members. Anticipated investment income is considered in determining supplemental assessments. Supplemental assessments are recognized as income in the period assessed.

P. ALLOCATION OF INDIRECT EXPENSES

Indirect expenses are allocated among insurance programs in the percentage management estimates each program bears on administration costs.

Q. STATEMENT OF CASH FLOWS

GSRMA considers interest on investments to be nonoperating revenue; therefore, investment income is presented in the investing section of the Statement of Cash Flows.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

2. CASH AND INVESTMENTS

A. CASH AND CASH EQUIVALENTS

Cash consisted of the following at June 30 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash Per Bank	\$ 3,400,223	\$ 2,447,929
Less: Outstanding Checks	(356,966)	(351,521)
Balance Per Books	3,043,257	2,096,408
Money Market Accounts	23,418	4,708,261
LAIF	4,854,198	1,293,372
Total Cash and Cash Equivalents	<u>\$ 7,920,873</u>	<u>\$ 8,098,041</u>

Cash In Bank

The carrying amount of GSRMA's cash is covered by federal depository insurance up to \$250,000. Should deposits exceed the insured limits, the balance is covered by collateral held by the bank in accordance with California law requiring the depository bank to hold collateral equal to 110% of the excess government funds on deposit. This collateral must be in the form of government-backed securities.

Local Agency Investment Fund

GSRMA is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the state of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of GSRMA's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon GSRMA's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Funds are accessible and transferable to the master account within twenty-four hours notice. The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized.

Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations. This fund currently yields approximately 1.9% interest annually and has an average life of 193 days. The monies held in the LAIF are not subject to categorization by risk category. It is also not rated as to credit risk by a nationally recognized statistical rating organization.

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

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

B. INVESTMENTS

Under provisions of GSRMA's Investment Policy, and in accordance with Section 53601 of the California Government Code, GSRMA may invest in the following types of investments:

- Obligations of the US Government, its agencies or instrumentality's
- Local Agency Investment Fund (California State Treasurer's Pool)
- Medium-term corporate notes
- Passbook savings account demand deposits
- State agency obligations
- Certain bankers' acceptances
- Commercial paper "prime"
- Certificates of deposit
- Repurchase or reverse repurchase agreements

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from changes in interest rates, GSRMA's investment policy limits its investment portfolio maturities to no more than five years from purchase date to maturity date. Purchases of securities with maturities of greater than five years may be made only with prior approval of the Board of Directors.

As of June 30, 2018, GSRMA had the following investments held in a managed portfolio:

Investment Type	Fair Value	Investment Maturities		
		< 1yr	1-3 yrs	>3 yrs
Federal Government Agency	\$ 4,857,190	\$ 2,273,138	\$ 1,851,114	\$ 732,938
US Treasury	3,931,511	392,772	2,081,074	1,457,665
Corporate Notes	3,182,926	299,076	2,251,434	632,416
Asset Backed Securities	414,002	10,583	313,563	89,856
Supranationals	518,533	-	83,992	434,541
Total Investments	<u>\$ 12,904,162</u>	<u>\$ 2,975,569</u>	<u>\$ 6,581,177</u>	<u>\$ 3,347,416</u>

Credit Risk

The primary investment objective of GSRMA's Investment Policy is to preserve capital by investing in securities in accordance with the Government Code while maintaining an appropriate level of risk. It limits investments in medium-term corporate notes to A-AAA ratings issued by nationally recognized statistical ratings organizations. As of June 30, 2018, GSRMA's investments were rated by Standard and Poor's as shown on the following page. Some investments in Asset Backed Securities (ABS) and Supranationals were not rated (NR) at June 30, 2018.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

	Market Value	Minimum Legal Rating	S&P Rating
US Treasury	\$ 3,931,511	N/A	AA+
Federal Home Loan Banks	1,620,989	N/A	AA+
Federal National Mortgage Association	1,853,485	N/A	AA+
Federal Home Loan Mortgage Corporation	711,131	N/A	AA+
Federal Farm Credit Banks	671,583	N/A	AA+
Bekshire Hathaway	247,015	A	AA
International Bank Recon and Development	243,006	A	NR
Toyota ABS	221,524	A	AAA
Oracle Corp	196,419	A	AA-
Inter-American Development Bank	191,535	A	NR
Toyota Motor Corp	149,652	A	AA-
US Bancorp	149,424	A	A+
Cisco Systemts	149,064	A	AA-
HSBC Holdings PLC	148,248	A	A
Honda Motor Corp	148,108	A	A+
Apple Inc	147,878	A	AA+
Praxair	147,720	A	A
Visa Inc	147,564	A	A+
Home Depot	147,302	A	A
IBM Corp	146,684	A	A+
Charles Schwab Corp	146,013	A	A
United Parcel Service	144,916	A	A+
Deere & Company	144,287	A	A
Wal-Mart Stores	140,695	A	AA
Microsoft	137,804	A	AAA
Bank of New York	124,324	A	A
State Street Bank	123,982	A	A
Honda ABS	108,696	A	AAA
General Dynamics Corp	99,679	A	A+
Paccar Financial	98,340	A	A+
Costco Wholesale Corporation	97,810	A	A+
International Finance Corp	83,992	A	AAA
John Deere ABS	60,671	A	NR
Nissan ABS	23,111	A	NR
Total	\$ 12,904,162		

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

Concentration of Credit Risk

GSRMA's investment policy places investment limits at the time the investment decision is made on certain securities as follows:

	Limit	
	Per Institution	Per Type of Investment
Federal Home Loan Banks	N/A	40%
Federal National Mortgage Association	N/A	40%
Federal Home Loan Mortgage Corporation	N/A	40%
Medium Term Corporate Notes	10%	30%
Time CDs	15%	20%

Investments in debt securities of any one issuer consisting of 5% or more of total investments (excluding LAIF) are as follows:

	Fair Value	% of Portfolio
US Treasury	\$ 3,931,511	30%
Federal Home Loan Bank Bonds	1,620,989	13%
Federal National Mortgage Assn Notes	1,853,485	14%
Federal Home Loan Mortgage Corp	711,131	6%
Federal Farm Credit Banks	671,583	5%

3. ASSESSMENT PAYABLE

GSRMA participates in Schools Excess Liability Fund (SELF), an excess workers' compensation insurance pool. During 2003 and 2004, SELF levied assessments to members to fund a deficit in the excess workers' compensation program. As of June 30, 2018, GSRMA has accrued \$170,901, to be paid in installments over the next six (6) years.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

4. UNPAID CLAIMS LIABILITIES

The following represents changes in claims liabilities for GSRMA during the years ended June 30, 2018 and 2017:

	2018	2017
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 13,480,122	\$ 12,616,726
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	4,929,251	4,675,705
Changes in provision for insured events of prior fiscal years	(1,278,859)	(61,958)
Total incurred claims and claim adjustment expenses	3,650,392	4,613,747
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	763,673	905,039
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	2,752,757	2,845,312
Total payments	3,516,430	3,750,351
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 13,614,084	\$ 13,480,122

The components of unpaid claims and claim adjustment expenses as of June 30, 2018 and 2017 were as follows:

Claim Reserves	\$ 5,817,232	\$ 6,145,208
Claims Incurred But Not Reported	6,363,984	6,105,914
Unallocated Loss Adjustment Liability	1,432,868	1,229,000
Total Claims Liability	\$ 13,614,084	\$ 13,480,122
Current Portion	\$ 3,500,000	\$ 3,400,000
Noncurrent Portion	10,114,084	10,080,122
Total Claims Liability	\$ 13,614,084	\$ 13,480,122

At June 30, 2018 and 2017, \$15,145,571 and \$14,683,020 of unpaid claims and claim adjustment expenses were presented at their net present value of \$13,614,084 and \$13,480,122, respectively. These claims were discounted at an annual rate of 2.5% for Workers' Compensation and 2% for Liability program in 2018 and 2% for Workers' Compensation and 1.5% for Liability Program in 2017.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

5. JOINT POWERS AGREEMENT

GSRMA participates in a joint venture under a Joint Powers Agreement (JPA) with CSAC Excess Insurance Authority (CSAC-EIA) and Schools Excess Liability Fund (SELF). The relationship between GSRMA and CSAC-EIA and SELF is such that CSAC-EIA and SELF is not a component unit of GSRMA for financial reporting purposes.

	<u>CSAC-EIA</u>	<u>SELF</u>
Purpose	To provide excess insurance coverage for its members counties and member entities	To pool excess liability and workers compensation coverage to protect against catastrophic loss.
Participants	342 members including cities, school districts, special districts and JPA's.	524 public educational entities.
Governing Board	One representative from each member county and ten members elected by the public entity membership.	Seventeen representatives employed by members.

	<u>CSAC-EIA</u>	<u>SELF</u>
Payments for the Current Year	\$ 1,873,774	\$ 80,941
Condensed Financial Information		
	June 30, 2018 (Audited)	June 30, 2018 (Audited)
Total Assets	\$ 834,314,751	\$ 118,692,006
Deferred Outflows of Resources	1,718,920	497,939
Total Liabilities	712,318,785	101,064,545
Deferred Inflows of Resources	1,144,292	28,087
Net Position	\$ 122,570,594	\$ 18,097,313
Total Revenues	\$ 895,529,924	\$ 15,139,473
Total Expenses	(907,285,224)	(19,471,187)
Net Income (Loss)	\$ (11,755,300)	\$ (4,331,714)

Member Agencies Share of Year-End
Assets, Liabilities, or Net Position

*

*

* Has not been calculated.

GOLDEN STATE RISK MANAGEMENT AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

5. JOINT POWERS AGREEMENT (CONTINUED)

GSRMA withdrew from SELF Workers' Compensation program effective July 1, 2003; however, GSRMA has a continuing obligation related to potential policy year deficits and related future assessments. GSRMA still participates in SELF excess liability program. Copies of the financial statements can be obtained by visiting: www.selfjpa.org and www.CSAC-EIA.org.

6. NET POSITION

Designations of the ending net position indicate the portions of net position segregated for a specific future use. The Designation for Catastrophe Losses reflects the portion of net position designated for premium stabilization in the event of unusually large losses. Designations of the ending net position indicate plans for financial resource utilization in a future period.

Unpaid claims and claim adjustment expense – 85% confidence level	\$ 17,998,000
Liability for unpaid claims and claims adjustment expense – expected level	<u>(13,614,084)</u>
Amount to be provided for losses to the 85% confidence level	4,383,916
Additional funds for rate stability	<u>2,000,000</u>
Target Net Position	6,383,916
Net Position available	<u>6,077,726</u>
Net Position needed to meet target / (met)	<u>\$ 306,190</u>

7. SUBSEQUENT EVENTS

GSRMA's management evaluated its 2018 financial statements for subsequent events through January 25, 2019, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

GOLDEN STATE RISK MANAGEMENT AUTHORITY

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	Workers' Compensation		Property & Liability		Totals	
	2018	2017	2018	2017	2018	2017
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 11,363,747	\$ 10,587,442	\$ 2,116,375	\$ 2,029,284	\$ 13,480,122	\$ 12,616,726
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	3,461,000	3,376,705	1,313,000	1,299,000	4,774,000	4,675,705
Changes in provision for insured events of prior fiscal years	(379,398)	23,123	(744,210)	(85,081)	(1,123,608)	(61,958)
Total incurred claims and claim adjustment expenses	3,081,602	3,399,828	568,790	1,213,919	3,650,392	4,613,747
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	513,699	622,247	249,974	282,792	763,673	905,039
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	2,296,610	2,001,276	456,147	844,036	2,752,757	2,845,312
Total payments	2,810,309	2,623,523	706,121	1,126,828	3,516,430	3,750,351
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 11,635,040</u>	<u>\$ 11,363,747</u>	<u>\$ 1,979,044</u>	<u>\$ 2,116,375</u>	<u>\$ 13,614,084</u>	<u>\$ 13,480,122</u>
The components of unpaid claims and claim adjustment expenses as of June 30, 2018 and June 30, 2017 were as follows:						
Claim Reserves	\$ 5,305,954	\$ 5,638,380	\$ 511,278	\$ 506,828	\$ 5,817,232	\$ 6,145,208
Claims Incurred But Not Reported	5,219,218	4,749,367	1,144,766	1,356,547	6,363,984	6,105,914
Unallocated Loss Adjustment Liability	1,109,868	976,000	323,000	253,000	1,432,868	1,229,000
Total Claims Liability	<u>\$ 11,635,040</u>	<u>\$ 11,363,747</u>	<u>\$ 1,979,044</u>	<u>\$ 2,116,375</u>	<u>\$ 13,614,084</u>	<u>\$ 13,480,122</u>
Current Portion	\$ 2,800,000	\$ 2,300,000	\$ 700,000	\$ 1,100,000	\$ 3,500,000	\$ 3,400,000
Noncurrent Portion	8,835,040	9,063,747	1,279,044	1,016,375	10,114,084	10,080,122
Total Claims Liability	<u>\$ 11,635,040</u>	<u>\$ 11,363,747</u>	<u>\$ 1,979,044</u>	<u>\$ 2,116,375</u>	<u>\$ 13,614,084</u>	<u>\$ 13,480,122</u>

GOLDEN STATE RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – WORKERS’ COMPENSATION PROGRAM

AS OF JUNE 30, 2018

	Fiscal and Policy Year Ended June 30:									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Required contribution and investment revenue:										
Earned	\$ 3,131,991	\$ 3,435,289	\$ 3,238,562	\$ 3,183,236	\$ 3,751,728	\$ 3,886,917	\$ 4,361,546	\$ 4,581,024	\$ 4,776,977	\$ 5,264,826
Ceded	413,525	429,018	444,874	367,468	467,970	558,446	699,102	684,417	702,877	766,723
Net earned	2,956,139	2,956,139	2,793,688	2,815,768	2,815,768	2,956,139	3,662,444	3,896,607	4,074,100	4,498,103
2. Unallocated expenses	669,803	727,380	669,711	675,460	743,888	793,264	891,588	909,826	928,474	1,075,435
Retrospective distributions	100,000	-	-	-	-	-	-	-	-	-
3. Estimated incurred claims and expense, end of policy year										
Incurred	2,003,386	3,051,036	2,390,650	2,776,399	3,161,015	3,147,787	3,143,657	3,643,615	4,079,582	4,227,723
Ceded	413,525	429,018	444,874	367,468	467,970	558,446	699,102	684,417	702,877	766,723
Net Incurred	1,589,861	2,622,018	1,945,776	2,408,931	2,693,045	2,589,341	244,555	2,959,198	3,376,705	3,461,000
4. Paid (cumulative) as of:										
End of policy year	317,233	396,708	305,221	368,756	553,989	281,787	472,277	290,601	622,247	513,699
One year later	624,818	1,088,009	730,879	895,773	1,024,556	674,605	1,199,073	900,067	1,445,103	
Two years later	994,526	1,608,425	939,561	1,234,300	1,420,426	1,003,553	1,690,812	1,395,682		
Three years later	1,076,784	1,980,001	1,141,474	1,419,157	1,595,962	1,301,358	2,033,944			
Four years later	1,099,166	2,216,391	1,272,654	1,463,907	1,812,134	1,326,008				
Five years later	1,154,866	2,281,856	1,416,576	1,509,991	1,906,102					
Six years later	1,175,308	2,381,303	1,421,047	1,522,390						
Seven Years Later	1,186,220	2,437,842	1,505,943							
Eight Years Later	1,194,310	2,483,545								
Nine Years Later	1,243,646									
5. Reestimated ceded claims and expenses:	-	403,106	87,360	102,705	-	-	-	-	-	-
6. Reestimated net incurred claims and expenses:										
End of policy year	1,589,861	2,622,018	1,945,776	2,408,931	2,693,045	2,589,341	2,444,555	2,959,198	3,376,705	3,461,000
One year later	1,659,100	2,573,899	2,079,250	2,749,550	2,581,983	1,816,161	3,019,732	2,904,379	3,612,996	
Two years later	1,590,621	2,958,259	1,921,794	2,671,140	2,499,293	2,088,175	3,233,673	2,903,579		
Three years later	1,767,170	2,871,672	1,830,931	2,420,198	2,607,609	2,020,975	3,257,673			
Four years later	1,748,375	2,783,155	1,746,619	2,272,363	2,584,213	1,804,975				
Five years later	1,695,474	2,855,632	1,848,008	2,137,634	2,590,213					
Six years later	1,485,644	2,841,179	1,775,000	2,075,634						
Seven years later	1,441,832	2,930,795	1,780,000							
Eight Years Later	1,431,245	2,900,677								
Nine Years Later	1,431,245									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (158,616)	\$ 278,659	\$ (165,776)	\$ (333,297)	\$ (102,832)	\$ (784,366)	\$ 3,013,118	\$ (55,619)	\$ 236,291	\$ -

GOLDEN STATE RISK MANAGEMENT AUTHORITY

CLAIMS DEVELOPMENT INFORMATION – PROPERTY AND LIABILITY PROGRAM

AS OF JUNE 30, 2018

	Fiscal and Policy Year Ended June 30:									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Required contribution and investment revenue:										
Earned	\$ 2,243,763	\$ 2,569,136	\$ 2,472,341	\$ 2,881,943	\$ 2,982,436	\$ 3,194,726	\$ 3,405,133	\$ 3,564,779	\$ 3,731,668	\$ 4,146,180
Ceded	511,412	553,275	658,037	721,823	685,360	707,875	749,141	966,536	875,599	1,033,727
Net earned	1,732,351	2,015,861	1,814,304	2,160,120	2,297,076	2,486,851	2,655,992	2,598,243	2,856,069	3,112,453
2. Unallocated expenses	503,352	583,773	573,713	610,120	622,264	606,835	643,911	777,244	798,864	929,252
Retrospective distributions	200,000	150,000	400,000	200,000	200,000	-	-	236,044	-	-
3. Estimated incurred claims and expense, end of policy year										
Incurred	1,367,972	1,328,305	1,400,716	1,626,442	1,698,371	1,693,546	1,722,109	2,090,536	2,174,599	2,346,727
Ceded	511,412	553,275	658,037	721,823	685,360	707,875	749,141	966,536	875,599	1,033,727
Net Incurred	856,560	775,030	742,679	904,619	1,013,011	985,671	972,968	1,124,000	1,299,000	1,313,000
4. Paid (cumulative) as of:										
End of policy year	80,091	159,131	175,037	172,389	124,264	155,669	180,853	190,661	282,792	249,974
One year later	160,073	517,353	203,377	223,560	469,850	561,848	567,579	350,350	531,788	
Two years later	151,699	813,869	352,464	459,865	573,883	737,281	1,018,367	543,373		
Three years later	177,825	986,605	457,770	788,647	714,841	966,554	1,024,083			
Four years later	180,170	1,117,427	526,312	828,503	714,928	968,386				
Five years later	180,170	1,210,710	664,315	823,349	714,928					
Six years later	180,170	1,210,710	664,563	823,349						
Seven Years Later	180,170	1,210,710	664,563							
Eight Years Later	180,170	1,210,710								
Nine Years Later	180,170									
5. Reestimated ceded claims and expenses:	1,919	66,064	132,978	579,994	145,382	216,810	826,203	1,724,551	537,329	115,059
6. Reestimated net incurred claims and expenses:										
End of policy year	856,560	775,030	742,679	904,619	1,013,011	985,671	972,968	1,124,000	1,299,000	1,313,000
One year later	766,904	1,103,526	723,656	778,474	838,406	974,245	1,255,000	907,708	1,010,000	
Two years later	373,228	1,420,995	732,386	888,002	766,827	1,017,000	1,338,500	543,373		
Three years later	177,825	1,216,138	556,380	866,187	725,000	995,500	1,208,500			
Four years later	180,170	1,305,630	559,786	828,503	714,928	968,386				
Five years later	180,170	1,274,680	679,000	823,349	714,928					
Six years later	180,170	1,210,710	664,563	823,349						
Seven years later	180,170	1,210,710	664,563							
Eight Years Later	180,170	1,210,710								
Nine Years Later	180,170									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (676,390)	\$ 435,680	\$ (78,116)	\$ (81,270)	\$ (298,083)	\$ (17,285)	\$ 235,532	\$ (580,627)	\$ (289,000)	\$ -

GOLDEN STATE RISK MANAGEMENT AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2018

1. RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT

The schedule represents the changes in claims liabilities for the past year for GSRMA's property and liability program and workers compensation program.

2. CLAIMS DEVELOPMENT INFORMATION

The tables illustrate GSRMA's earned revenues (net of reinsurance) and investment income compared to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by GSRMA as of the end of the year.

The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution and investment income less ceded (excess insurance cost) contributions to arrive at net earned contribution and investment revenues.
2. This line shows each fiscal year's other operating costs of GSRMA including overhead and claims expense not allocable to individual claims. All unallocable administration expenses are charged to the current year. Retrospective distributions represent dividends paid to the membership during the policy year.
3. This line shows GSRMA's gross incurred losses and allocated loss adjustment expenses, losses assumed by reinsurers and net incurred losses and allocated loss adjustment expenses as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred.
4. This section shows the cumulative amounts paid as of the end of the year.
5. This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each insured year.
6. This annual reestimation results from new information received on known claim, as well as emergence of new claims not previously known.
7. This line compares the latest reestimated incurred claim amount to the amount originally established (line 3) and shows whether this later estimate of claims cost is greater or less than originally estimated.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

SUPPLEMENTARY INFORMATION

GOLDEN STATE RISK MANAGEMENT AUTHORITY

GRAPHICAL SUMMARY OF CLAIMS

AS OF JUNE 30, 2018

