

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

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

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2016 AND 2015**

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**BOARD OF DIRECTORS**

**JUNE 30, 2016**

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**JOHN VIEGAS – PRESIDENT**  
County Representative

**CHARLES GEE – VICE PRESIDENT**  
City Representative

**DR. MICHAEL KARLE – MEMBER**  
School District Representative

**MICHAEL SCHAEFFER - MEMBER**  
Fire District Representative

**KEITH CORUM - MEMBER**  
County Representative

**GEORGE OUZOUNIAN - MEMBER**  
Public Cemetery Alliance Representative

**KIM VANN - MEMBER**  
Special Districts Representative

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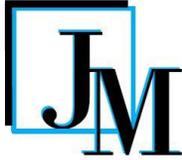
**SCOTT SCHIMKE, ARM - RISK MANAGER**  
Golden State Risk Management Authority

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

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**James Marta & Company LLP**  
**Certified Public Accountants**

*Accounting, Auditing, Consulting, and Tax*

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**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, 2016 and 2015, and the related Statement of Revenues, Expenses and Changes in Net Position, and 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, 2016 and 2015 and the changes in its net position and its cash flows for the years then ended in accordance 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, the Reconciliation of Claims Liabilities by Type of Contract and Claims Development Information 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.

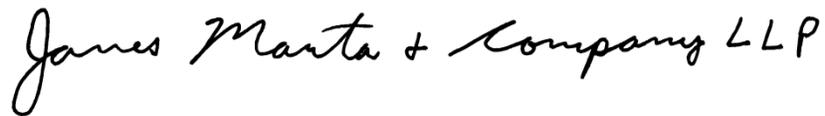
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise GSRMA's basic financial statements. 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 Supplementary Information, as shown on the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information, as shown on the table of contents, is fairly stated, in all material respects, in relation to the basic 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 26, 2017 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* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "James Marta & Company LLP". The signature is written in a cursive, flowing style.

James Marta & Company LLP  
Certified Public Accountants  
Sacramento, California  
January 26, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# **GOLDEN STATE RISK MANAGEMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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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, 2016, 2015 and 2014. 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 (Charles Bergson, City of Williams), 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 that belongs to the Public Cemetery Alliance (George Ouzounian, Visalia Public Cemetery District), one member from the Board of Directors of a member fire protection district (Michael Schaeffer, Comptche Community Services District) and one member from the Board of Directors of a member special district (Kim Vann, North Central Counties Consortium, Inc.).

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.

### **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, to a lesser extent, 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, continue to face an "upward" phase of the insurance market. The liability and property markets are a bit jittery due to domestic social unrest and domestic and international terrorism and election year unknowns. There is concern that this will affect the cost of coverage in these programs.

GSRMA and its members will see workers' compensation rates increase while coverage possibly shrinks as its hardened phase continues.

# **GOLDEN STATE RISK MANAGEMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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Savings from prior legislative reforms have been largely nullified by actions both in the courts and at the State legislative level. SB 863, the 2013 workers' compensation reform bill, has not resulted in any noticeable savings for our pool specifically, likely because one of the main targets of the legislation, the relief from tardy liens from providers, was much more prevalent in other areas of the State. AB 1035, extending the time period in which a claim can be filed by a firefighter for job relate illness, will likely have a negative effect on claims costs or at least the cost of excess insurance. The possibility of approval of legislation introduced in the next few (non-election) years could have significant negative impact on claims costs and rates. In addition, an anticipated increase in reporting requirements over the next few years from the California Division of Workers' Compensation may increase administrative expense as well.

The returns for safe investments vehicles are slowly improving but are still doing little to offset increasing costs. This is especially true for public entities in California who, by law, can only invest in exceptionally safe investment vehicles that, currently, provide slim return. The Federal Reserve Bank is taking a very gradual path to increase interest rates so we expect earnings on investments will remain low for at least the next year.

Health costs are a significant portion of total claims costs and they continue to increase annually faster than overall inflation.

GSRMA continues to benefit from the recent implementation of more functional operational software. Data analytics is the current focus of the industry, our excess carriers, and GSRMA as well. Predictive analytics, loss cause analysis and even member district education will be the result of these efforts. This should positively affect the frequency and severity of claims for the pool.

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.

### **MEMBERSHIP**

As of June 30, 2016, GSRMA had two-hundred fifty-seven (257) 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 including cemetery districts, fire departments, irrigation districts and various types of special districts and expects new member growth in 2016/2017 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.

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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The program has several excess layers in place. Specifically, GSRMA places excess coverage through CSAC-Excess Insurance Authority (CSAC-EIA). The 2015/2016 Self Insured Retention (SIR) was \$250K per occurrence. GSRMA places some of its school-related coverage through the Schools Excess Liability Fund (SELF) as well.

Program contribution rates 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 number of employees and payroll.

In July, 2011, GSRMA introduced an HR Legal Resource Program that offers members access to human resource attorneys so that they can receive legal advice regarding employment-related issues at no cost. As more and more members embrace this service, it is making a significant impact in reducing employment practice losses.

### **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 rates 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 2015/2016 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

GSRMA uses the "OUR System," an early return to work system for the County of Glenn and other members that have shown interest. The program has been successful and is available to all GSRMA members. Additionally, a nurse triage program has been fully implemented and is in use by most 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 and recently implemented a pharmacy management service to help reduce costs in the workers' compensation program.

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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### 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 \$560 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 type 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.

### Employee Benefits

Beginning in July, 2007, GSRMA offered its members employee insurance products including health insurance, group dental, vision, life and accidental death & disability. At the end of the 2015/2016 fiscal year, the program had grown to cover approximately 1,500 lives in 40 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 Specialist Betsey Downey, the Loss Prevention department provided nearly 300 on-site inspections and trainings for the membership during 2015/2016. 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 2015/2016, twenty-seven members utilized over \$24,000 from this Subsidy fund. Another GSRMA program, the Loss Prevention Incentive Program (LPIP), provides contribution reduction incentives to member agencies as a result of specific loss prevention activities that they complete. Fiscal year 2015/2016 was the tenth year of the LPIP and forty-four member districts received credits totaling \$317,000, a 24% increase from 2014/2015.

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

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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Annually, GSRMA provides its membership with an extensive Orientation and Training conference. For 2015/2016, the conference was held in Corning, California, and for the first time, was expanded to two days. Randy Anderson, a nationally known performance improvement expert, provided an educational and entertaining presentation dedicated to moving others to "Improving Human Performance". The second day of the conference included two breakout sessions: One on duties for board members of public agency governing boards and the other on leadership development for managers.

### **Membership Communication**

GSRMA provides its membership with an informative and useful website: [www.gsrma.org](http://www.gsrma.org). The site content is updated regularly. Forms, a calendar, contact information and more are available online. A member portal is available as well that 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.

A blog of short informational articles and answers to frequently asked questions is maintained on the website as well.

### **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 Solution's web-based application for training, certification tracking and member communication. Roughly 6,600 classes and training activities were completed by member employees in 15/16.

WeTip is an anonymous crime reporting system. It helps in the identification and resolution of crimes against our members and acts as a significant 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. In addition, GSRMA staff offer site inspection, playground inspection and ergonomic evaluation services.

### **CAJPA ACCREDITATION**

GSRMA voluntarily undergoes a thorough review of all operations through 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.

# **GOLDEN STATE RISK MANAGEMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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

### **FINANCIAL HIGHLIGHTS**

- Total revenue, from all sources including investments, was \$15.3 Million, an increase of 6.7% or \$971K from 2014/2015. The increase was spread out fairly evenly based on the size of each program with \$331K (7.8%) increase in workers' compensation contribution, \$177K (6.8%) increase in liability contribution and \$354K (5.4%) premium increase for the health plan.
- Total expenses were \$14.9 Million, an increase of 7.5% totaling \$1M from 2014/2015. Estimated claims cost remained flat which was much improved over the prior year's increase of 28% or \$987K. Insurance expense and admin increased 8% and 17% respectively. The former was mostly due to an increase in liability coverage costs while most of the latter was due to a \$236K dividend which is considered a general expense.
- GSRMA assets of \$19.8 Million exceeded its liabilities of \$14.8 Million at June 30, 2016 by \$5 Million. This amount increased \$445K or 10% due mainly to increased contribution without a corresponding increase in the cost of claims. This compares to a similarly large increase in the prior year and a smaller decrease in net assets in 2013/2014. The \$5 Million of fund equity may be used to meet GSRMA's ongoing obligations to members, claimants and creditors.

# **GOLDEN STATE RISK MANAGEMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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### **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, 2016 is included in page 1 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, 2016**

*Condensed Statement of Net Position*  
*Fiscal year ended June 30, 2016, 2015, 2014*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase/(Decrease)</u> <u>2015 to 2016</u>	<u>June 30, 2014</u>	<u>Increase/(Decrease)</u> <u>2015 to 2016</u>
<b>Assets:</b>					
Current Assets	\$ 11,881,898	\$ 10,778,956	\$ 1,102,942	\$ 12,363,228	\$ (1,584,272)
Non-Current Assets	<u>7,910,670</u>	<u>8,739,322</u>	<u>(828,652)</u>	<u>6,043,460</u>	<u>2,695,862</u>
<b>Total Assets</b>	<u>19,792,568</u>	<u>19,518,278</u>	<u>274,290</u>	<u>18,406,688</u>	<u>1,111,590</u>
<b>Liabilities:</b>					
Current Liabilities	4,522,771	5,010,813	(488,042)	4,687,143	323,670
Noncurrent Liabilities	<u>10,221,807</u>	<u>9,904,121</u>	<u>317,686</u>	<u>9,627,625</u>	<u>276,496</u>
<b>Total Liabilities</b>	<u>14,744,578</u>	<u>14,914,934</u>	<u>(170,356)</u>	<u>14,314,768</u>	<u>600,166</u>
<i>Net Position</i>	<u>\$ 5,047,990</u>	<u>\$ 4,603,344</u>	<u>\$ 444,646</u>	<u>\$ 4,091,920</u>	<u>\$ 511,424</u>

*Condensed Statement of Revenue, Expenses, and Changes in Net Position*  
*Fiscal year ended June 30, 2016, 2015, 2014*

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase/(Decrease)</u> <u>2015 to 2016</u>	<u>June 30, 2014</u>	<u>Increase/(Decrease)</u> <u>2014 to 2015</u>
<b>Operating Income:</b>					
Operating Revenues	\$ 15,122,641	\$ 14,266,180	\$ 856,461	\$ 13,605,249	\$ 660,931
Operating Expenses	<u>14,878,636</u>	<u>13,840,158</u>	<u>1,038,478</u>	<u>12,575,578</u>	<u>1,264,580</u>
Operating income (loss)	244,005	426,022	(182,017)	1,029,671	(603,649)
Non-operating revenue - investment income	<u>200,641</u>	<u>85,402</u>	<u>115,239</u>	<u>135,131</u>	<u>(49,729)</u>
Increase (decrease) in net position	444,646	511,424	(66,778)	1,164,802	(1,231,580)
<b>Net position - beginning of year</b>	<u>4,603,344</u>	<u>4,091,920</u>		<u>2,927,118</u>	
<b>Net position - end of year</b>	<u>\$ 5,047,990</u>	<u>\$ 4,603,344</u>		<u>\$ 4,091,920</u>	

Total non-employee-benefits contribution revenues increased 6% or \$492K over 2014/2015. The increase was due to a combination of the addition of new members and an increase in estimated payroll. Estimated payroll increased approximately 10% from 2014/2015. We expect the payroll for existing members to level off in 2016/2017 though total payroll for the year should increase due mainly to an increase in membership.

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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Net increase in investment income and investment value went from \$85K in 2014/2015 to \$200K in 2015/2016. We expect an increase in this for 2016/2017 as our new investment advisor manages investments more aggressively and interest rates begin to rise.

The employee benefits participation increased to 40 members covering a total 1,500 lives - an increase of nearly 500 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.

**Insurance Premiums.** The insurance premium revenues and the expenses are dependent on the cyclical insurance market. Currently, the market continues on its path of hardening. Claims costs directly related to medical costs and administrative costs, due to increased reporting and regulatory compliance, increase premium costs. The forecast for extremely low return for investment of public agency reserves as well as the unpredictable state of financial markets worldwide have an overall negative affect as well. GSRMA should expect to see excess rates continue to increase.

Non-employee-benefits excess insurance costs from 2014/2015 to 2015/2016 increased 14% or \$204K. Though not a significant increase considering that payroll increased 10.5%, it is notable since prior year's excess percentage increase was roughly equal to the payroll percentage increase.

**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 remained mostly flat for 2015/2016 – a significant improvement over 2014/2015 which saw this increase significantly.

### **Financial Summary**

During the fiscal year 2015/2016, the overall financial picture of GSRMA strengthened due to lower than expected claims costs. The result is that net position increased almost \$445K or nearly 10%. Since this amount can change significantly from year to year, this is not unexpected. The pool remains adequately and conservatively funded above the 90% confidence level.

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

Case law and legislative activity has occurred that has resulted in increased costs and a negative financial impact. AB 2253 (public safety employees cancer presumptive), signed into law late in 2010, will have a significant negative impact on claims cost over time. Legislation that will result in increased workers' compensation costs continues to be introduced annually and are beginning to have more success in being signed by the Governor.

Though a turnaround is finally occurring in investment returns, low interest rates continue to erode the amount of additional funds generated by investments that help offset claims and administrative costs.

# **GOLDEN STATE RISK MANAGEMENT AUTHORITY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016**

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This will continue to have an impact in 2016/2017 as most excess funds are kept in safe but low yielding cash accounts and bond instruments. Notably related to this, our excess carrier is being significantly affected by the decrease in the level of discounting they exercise in calculating their outstanding claims liability. Discounting takes into account future returns on investment to offset claims liability. As interest rates have remained low, this offset amount has decreased substantially requiring CSAC-EIA to increase their reserves by increasing the amount they collect from members.

Though the effects of the State's fiscal crisis were partially alleviated with tax increases approved by the voters through Proposition 30, many special districts in California are still struggling - including the members of GSRMA. These struggles could continue to negatively affect the budgets of these districts including their employee counts and total payroll amounts.

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.

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 changes 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 within GSRMA member data and in conjunction with data from other like risk organizations should result in quicker recognition of and response to potential losses. This may decrease claims costs and increase overall pool efficiency.

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. Voters have elected to continue temporary taxes that were due to sunset after 2016. The electorate's choice to continue to support additional taxation to fill state funding shortfalls could help alleviate funding challenges for many of our members – at least in the short term.

Overall, GSRMA remains in a very 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**

**AS OF JUNE 30, 2016 AND 2015**

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	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 7,179,059	\$ 9,303,677
Interest receivable	36,551	36,247
Investments maturing within one year	3,940,830	515,270
Accounts receivable	72,651	333,155
Prepaid expenses	652,807	590,607
Total Current Assets	<u>11,881,898</u>	<u>10,778,956</u>
Noncurrent Assets		
Investments, at market	<u>7,910,670</u>	<u>8,739,322</u>
Total Assets	<u>19,792,568</u>	<u>19,518,278</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable	68,179	40,215
Assessment payable	34,180	34,180
Unearned revenue	1,584,368	2,536,418
Dividends payable	236,044	-
Current portion of unpaid claims and claim adjustment expense	<u>2,600,000</u>	<u>2,400,000</u>
Total Current Liabilities	<u>4,522,771</u>	<u>5,010,813</u>
Noncurrent Liabilities		
Assessment payable	205,081	239,261
Unpaid claims and claim adjustment expense	<u>10,016,726</u>	<u>9,664,860</u>
Total Noncurrent Liabilities	<u>10,221,807</u>	<u>9,904,121</u>
Total Liabilities	<u>14,744,578</u>	<u>14,914,934</u>
<b>NET POSITION</b>		
Net Position	<u>\$ 5,047,990</u>	<u>\$ 4,603,344</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Member contributions	\$ 15,099,045	\$ 14,240,143
Other income	23,596	26,037
Total Operating Revenues	<u>15,122,641</u>	<u>14,266,180</u>
<b>OPERATING EXPENSES</b>		
Provision for unpaid claims and claim adjustment expenses	3,566,149	3,556,693
Insurance expense	8,502,822	7,893,256
Claims administration	645,456	538,483
General and administrative expenses		
Professional services	394,062	388,392
Loss control services	692,440	639,364
Risk management services	716,239	707,254
Other administrative expenses	125,424	116,716
Dividends expenses	236,044	-
Total general and administrative expenses	<u>2,164,209</u>	<u>1,851,726</u>
Total Operating Expenses	<u>14,878,636</u>	<u>13,840,158</u>
Operating Income	244,005	426,022
<b>NONOPERATING REVENUES</b>		
Investment income	<u>200,641</u>	<u>85,402</u>
<b>Change in Net Position</b>	444,646	511,424
Net Position, Beginning of Period	<u>4,603,344</u>	<u>4,091,920</u>
Net Position, End of Period	<u>\$ 5,047,990</u>	<u>\$ 4,603,344</u>

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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows From Operating Activities</b>		
Contributions received	\$ 14,431,095	\$ 14,973,652
Claims expenses paid	(3,659,739)	(3,784,500)
Insurance premiums paid	(8,599,202)	(7,975,264)
General and administrative expenses paid	(1,900,201)	(1,921,043)
Net Cash Flows Provided by Operating Activities	271,953	1,292,845
<b>Cash Flows From Investing Activities</b>		
Investment income received	215,128	107,844
Payments for purchases of investments	(13,470,709)	(5,344,213)
Proceeds from sales and maturities of investments	10,859,010	3,647,043
Net Cash Flows Used by Investing Activities	(2,396,571)	(1,589,326)
Net Decrease in Cash	(2,124,618)	(296,481)
Beginning Cash and Cash Equivalents	9,303,677	9,600,158
Ending Cash and Cash Equivalents	\$ 7,179,059	\$ 9,303,677
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 244,005	\$ 426,022
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operations:		
(Increase) Decrease in:		
Member receivable	260,504	314,485
Prepaid expenses	(62,200)	(47,828)
Increase (Decrease) in:		
Accounts payable	27,964	(69,317)
Assessment payable	(34,180)	(34,180)
Dividends payable	236,044	-
Unearned revenue	(952,050)	392,987
Claims liability	551,866	310,676
Net Cash Provided (Used) by Operating Activities	\$ 271,953	\$ 1,292,845
<b>Supplementary Information</b>		
Noncash Investing and Financing Transactions		
Change in fair market value of investments	\$ (14,791)	\$ (80,255)

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

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**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, 2016, membership of the various programs is as follows:

	<b><u>Liability</u></b>	<b><u>Property</u></b>	<b><u>Workers' Compensation</u></b>	<b><u>Health Benefits</u></b>
Counties	1	1	1	-
Cities	4	4	4	4
Fire districts	45	43	43	4
Schools	8	8	8	1
Special districts	75	70	37	-
Cemetery districts	117	118	98	16
Total	<u>250</u>	<u>244</u>	<u>191</u>	<u>35</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, 2016:

<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, 2016

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### 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 2015/2016 fiscal year, the program had grown to approximately 555 enrollees in 35 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, 2016**

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**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 superceded 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, 2016 and 2015 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, 2016**

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**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, 2016**

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**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, 2016**

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**2. CASH AND INVESTMENTS**

**A. CASH AND CASH EQUIVALENTS**

Cash consisted of the following at June 30 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash Per Bank	\$ 1,576,284	\$ 2,435,429
Less: Outstanding Checks	(218,328)	(728,294)
Balance Per Books	1,357,956	1,707,135
Money Market Accounts	4,536,099	6,316,143
LAIF	1,285,004	1,280,399
Total Cash and Cash Equivalents	<u>\$ 7,179,059</u>	<u>\$ 9,303,677</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 .29% interest annually and has an average life of 239 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, 2016**

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**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, 2016, GSRMA had the following investments held in a managed portfolio:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>		
		<u>&lt; 1yr</u>	<u>1-3 yrs</u>	<u>&gt;3 yrs</u>
Federal Government Agency	\$ 5,668,542	\$ 1,216,092	\$ 3,310,002	\$ 1,142,448
Corporate Notes	3,467,086	2,529,538	623,976	313,572
US Treasury	2,715,872	195,200	1,609,054	911,618
Total Investments	<u>\$ 11,851,500</u>	<u>\$ 3,940,830</u>	<u>\$ 5,543,032</u>	<u>\$ 2,367,638</u>

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

*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, 2016, GSRMA's investments in corporate notes were rated by Standard and Poor's.

	<u>Market Value</u>	<u>Minimum Legal</u>	<u>S&amp;P Rating</u>
Intel Crop SR NT	\$ 513,065	A	A+
Caterpillar Financial Bond	503,770	A	A
JPMORGAN Chase & Co	514,445	A	A
WYETH	539,725	A	AA
Toyota Motor Credit Corp	1,010,800	A	AA-
California St Go Bonds	501,125	A	A
Commonwealth Bank of Australia	505,040	A	AA-
Federal National Mortgage Assn Notes	497,095	N/A	AA+
Federal Home Loan Mortgage Corp	999,885	N/A	AA+
Federal Home Loan Bank Bonds	1,005,090	N/A	AA+
Federal Farm Credit Banks	999,515	N/A	Not Rated

*Concentration of Credit Risk*

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

	<u>Limit</u>	
	<u>Per Institution</u>	<u>Per Type of Investment</u>
Federal Home Loan Banks	N/A	40%
Federal National Mortgage Association	N/A	30%
Federal Home Loan Mortgage Corporation	N/A	40%
Medium Term Corporate Notes	10%	30%
Time CDs*	15%	50%

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

	<u>Fair Value</u>	<u>% of Portfolio</u>
Toyota Motor Credit Corp	\$ 1,010,800	9%
Federal Home Loan Bank Bonds	1,005,090	8%
Federal Home Loan Mortgage Corp	999,885	8%
Federal Farm Credit Banks	999,515	8%
WYETH	539,725	5%

\*Amounts are deposited under the Certificate of Deposit Account Registry Service (CDARS), a program that places funds into multiple Certificates of Deposit through one financial institution. All amounts are fully insured and therefore meet the company investment policy.

LAIF & Investment Fund Valuation

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at June 30, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
LAIF	\$ 758,203	\$ 526,801	\$ -	\$ 1,285,004
Investments	11,851,500	-	-	11,851,500
Total	<u>\$ 12,609,703</u>	<u>\$ 526,801</u>	<u>\$ -</u>	<u>\$ 13,136,504</u>

**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, 2016, GSRMA has accrued \$239,261, to be paid in installments over the next seven (7) years.

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**4. UNPAID CLAIMS LIABILITIES**

The following represents changes in claims liabilities for GSRMA during the years ended June 30, 2016 and 2015:

	2016	2015
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 12,064,860	\$ 11,754,184
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	3,892,066	3,417,523
Changes in provision for insured events of prior fiscal years	(325,917)	139,170
Total incurred claims and claim adjustment expenses	3,566,149	3,556,693
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	481,262	653,130
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	2,533,021	2,592,887
Total payments	3,014,283	3,246,017
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 12,616,726	\$ 12,064,860

The components of unpaid claims and claim adjustment expenses as of June 30, 2016 and 2015 were as follows:

Claim Reserves	\$ 6,609,179	\$ 6,015,145
Claims Incurred But Not Reported	5,034,547	5,042,538
Unallocated Loss Adjustment Liability	973,000	1,007,177
Total Claims Liability	\$ 12,616,726	\$ 12,064,860
Current Portion	\$ 2,600,000	\$ 2,400,000
Noncurrent Portion	10,016,726	9,664,860
Total Claims Liability	\$ 12,616,726	\$ 12,064,860

At June 30, 2016 and 2015, \$13,747,866 and \$12,718,559 of unpaid claims and claim adjustment expenses were presented at their net present value of \$12,616,726 and \$12,064,860, respectively. These claims were discounted at an annual rate of 2% for Workers Compensation and 1.5% for Liability program in 2016 and 2015.

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

**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.

<b>A. <u>Entity</u></b>	CSAC-EIA	SELF
<b>B. <u>Purpose</u></b>	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.
<b>C. <u>Participants</u></b>	48 Counties & 11 public entities	538 public educational entities.
<b>D. <u>Governing Board</u></b>	5 County board members & 10 public entity board members	Seventeen representatives employed by members.
<b>E. <u>Payments for the Current Year</u></b>	\$ 1,585,764	\$ 54,310
<b>F. <u>Condensed Financial Information</u> (Most recent financials available)</b>		
	June 30, 2016 (Audited)	June 30, 2016 (Audited)
Total Assets	\$ 738,658,237	\$ 138,820,266
Deferred Outflows	3,329,112	266,414
Total Liabilities	602,870,657	117,306,926
Deferred Inflows	144,075	245,133
Net Position	137,672,617	21,534,621
Total Revenues	\$ 787,536,407	\$ 13,898,598
Total Expenses	(762,270,435)	24,553,606
Net Income (Loss)	\$ 25,265,972	\$ (10,655,008)

\* 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](http://www.selfjpa.org) and [www.CSAC-EIA.org](http://www.CSAC-EIA.org).

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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**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	\$ 15,771,000
Liability for unpaid claims and claims adjustment expense – expected level	<u>(12,616,726)</u>
Amount to be provided for losses to the 85% confidence level	3,154,274
Additional funds for rate stability	<u>2,000,000</u>
Target Net Position	5,154,274
Net Position available	<u>5,047,990</u>
Net Position needed to meet target / (met)	<u><u>\$ 106,284</u></u>

**7. SUBSEQUENT EVENTS**

GSRMA's management evaluated its 2016 financial statements for subsequent events through January 26, 2017, 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, 2016 AND 2015**

	<u>Workers' Compensation</u>		<u>Property &amp; Liability</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 10,263,417	\$ 9,840,676	\$ 1,801,443	\$ 1,913,508	\$ 12,064,860	\$ 11,754,184
Incurred claims and claim adjustment expenses:						
Provision for insured events of the current fiscal year	2,719,024	2,444,555	1,173,042	972,968	3,892,066	3,417,523
Changes in provision for insured events of prior fiscal years	(451,391)	8,341	125,474	130,829	(325,917)	139,170
Total incurred claims and claim adjustment expenses	<u>2,267,633</u>	<u>2,452,896</u>	<u>1,298,516</u>	<u>1,103,797</u>	<u>3,566,149</u>	<u>3,556,693</u>
Payments:						
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	290,601	472,277	190,661	180,853	481,262	653,130
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>1,653,007</u>	<u>1,557,878</u>	<u>880,014</u>	<u>1,035,009</u>	<u>2,533,021</u>	<u>2,592,887</u>
Total payments	<u>1,943,608</u>	<u>2,030,155</u>	<u>1,070,675</u>	<u>1,215,862</u>	<u>3,014,283</u>	<u>3,246,017</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 10,587,442</u>	<u>\$ 10,263,417</u>	<u>\$ 2,029,284</u>	<u>\$ 1,801,443</u>	<u>\$ 12,616,726</u>	<u>\$ 12,064,860</u>
The components of unpaid claims and claim adjustment expenses as of June 30, 2016 and June 30, 2015 were as follows:						
Claim Reserves	\$ 5,692,226	\$ 5,461,114	\$ 916,953	\$ 554,031	\$ 6,609,179	\$ 6,015,145
Claims Incurred But Not Reported	4,085,216	4,024,127	949,331	1,018,411	5,034,547	5,042,538
Unallocated Loss Adjustment Liability	810,000	778,176	163,000	229,001	973,000	1,007,177
Total Claims Liability	<u>\$ 10,587,442</u>	<u>\$ 10,263,417</u>	<u>\$ 2,029,284</u>	<u>\$ 1,801,443</u>	<u>\$ 12,616,726</u>	<u>\$ 12,064,860</u>
Current Portion	\$ 1,700,000	\$ 1,650,000	\$ 900,000	\$ 750,000	\$ 2,600,000	\$ 2,400,000
Noncurrent Portion	8,887,442	8,613,417	1,129,284	1,051,443	10,016,726	9,664,860
Total Claims Liability	<u>\$ 10,587,442</u>	<u>\$ 10,263,417</u>	<u>\$ 2,029,284</u>	<u>\$ 1,801,443</u>	<u>\$ 12,616,726</u>	<u>\$ 12,064,860</u>

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**CLAIMS DEVELOPMENT INFORMATION – WORKERS’ COMPENSATION PROGRAM**

**AS OF JUNE 30, 2016**

	Fiscal and Policy Year Ended June 30:									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required contribution and investment revenue:										
Earned	\$ 3,399,046	\$ 3,197,735	\$ 3,131,991	\$ 3,435,289	\$ 3,238,562	\$ 3,183,236	\$ 3,751,728	\$ 3,886,917	\$ 4,361,546	\$ 4,581,024
Ceded	339,678	462,223	413,525	429,018	444,874	367,468	467,970	558,446	699,102	684,417
Net earned	2,956,139	2,956,139	2,956,139	2,956,139	2,793,688	2,815,768	2,815,768	2,956,139	3,662,444	3,896,607
2. Unallocated expenses	794,796	675,616	832,708	902,195	954,523	733,251	801,909	759,289	891,588	908,826
3. Estimated incurred claims and expense, end of policy year										
Incurred	1,747,003	1,824,707	2,003,386	3,051,036	2,390,650	2,776,399	3,161,015	3,147,787	3,143,657	3,643,615
Ceded	339,678	462,223	413,525	429,018	444,874	367,468	467,970	558,446	699,102	684,417
Net Incurred	1,407,325	1,362,484	1,589,861	2,622,018	1,945,776	2,408,931	2,693,045	2,589,341	2,444,555	2,959,198
4. Paid (cumulative) as of:										
End of policy year	414,862	219,466	317,233	396,708	305,221	368,756	553,989	281,787	472,277	290,601
One year later	898,806	508,226	624,818	1,088,009	730,879	895,773	1,024,556	674,605	1,199,073	
Two years later	1,421,741	805,560	994,526	1,608,425	939,561	1,234,300	1,420,426	1,003,553		
Three years later	1,730,973	963,508	1,076,784	1,980,001	1,141,474	1,419,157	1,595,962			
Four years later	2,053,368	1,016,515	1,099,166	2,216,391	1,272,654	1,463,907				
Five years later	2,220,787	1,052,528	1,154,866	2,281,856	1,416,576					
Six years later	2,311,430	1,067,267	1,175,308	2,381,303						
Seven Years Later	2,534,650	1,091,038	1,186,220							
Eight Years Later	2,455,748	1,100,834								
Nine Years Later	2,502,798									
5. Reestimated ceded claims and expenses:	339,678	462,223	413,525	429,018	444,874	367,468	467,970	558,446	699,102	684,417
6. Reestimated net incurred claims and expenses:										
End of policy year	1,407,325	1,362,484	1,589,861	2,622,018	1,945,776	2,408,931	2,693,045	2,589,341	2,444,555	2,959,198
One year later	2,003,469	1,396,009	1,659,100	2,573,899	2,079,250	2,749,550	2,581,983	1,816,161	3,019,732	
Two years later	2,336,564	1,439,539	1,590,621	2,958,259	1,921,794	2,671,140	2,499,293	2,088,175		
Three years later	2,387,840	1,485,596	1,767,170	2,871,672	1,830,931	2,420,198	2,607,609			
Four years later	2,755,967	1,537,288	1,748,375	2,783,155	1,746,619	2,272,363				
Five years later	2,991,093	1,461,022	1,695,474	2,855,632	1,848,008					
Six years later	3,137,753	1,372,144	1,485,644	2,841,179						
Seven years later	3,854,632	1,400,528	1,441,832							
Eight Years Later	2,985,821	1,360,149								
Nine Years Later	3,060,494									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ 1,653,169	\$ (2,335)	\$ (148,029)	\$ 219,161	\$ (97,768)	\$ (136,568)	\$ (85,436)	\$ (501,166)	\$ 575,177	\$ -

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**CLAIMS DEVELOPMENT INFORMATION – PROPERTY AND LIABILITY PROGRAM**

**AS OF JUNE 30, 2016**

	Fiscal and Policy Year Ended June 30:									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Required contribution and investment revenue:										
Earned	\$ 1,953,920	\$ 2,198,271	\$ 2,243,763	\$ 2,569,136	\$ 2,472,341	\$ 2,881,943	\$ 2,982,436	\$ 3,194,726	\$ 3,405,133	\$ 3,564,779
Ceded	530,538	514,421	511,412	553,275	658,037	721,823	685,360	707,875	749,141	966,536
Net earned	1,423,382	1,683,850	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. Unallocated expenses	478,915	545,472	681,660	795,703	646,432	662,442	668,387	578,911	643,911	777,244
3. Estimated incurred claims and expense, end of policy year										
Incurred	1,131,249	1,119,614	1,367,972	1,328,305	1,400,716	1,626,442	1,698,371	1,693,546	1,722,109	2,090,536
Ceded	530,538	514,421	511,412	553,275	658,037	721,823	685,360	707,875	749,141	966,536
Net Incurred	600,711	605,193	856,560	775,030	742,679	904,619	1,013,011	985,671	972,968	1,124,000
4. Paid (cumulative) as of:										
End of policy year	118,962	83,220	80,091	159,131	175,037	172,389	124,264	155,669	180,853	190,661
One year later	266,544	313,015	160,073	517,353	203,377	223,560	469,850	561,848	567,579	
Two years later	368,729	611,081	151,699	813,869	352,464	459,865	573,883	737,281		
Three years later	382,529	887,894	177,825	986,605	457,770	788,647	714,841			
Four years later	299,885	887,894	180,170	1,117,427	526,312	828,503				
Five years later	299,885	887,894	180,170	1,210,710	664,315					
Six years later	294,885	887,894	180,170	1,210,710						
Seven Years Later	294,885	887,893	180,170							
Eight Years Later	294,885	887,893								
Nine Years Later	294,885									
5. Reestimated ceded claims and expenses:	113,347	514,421	511,412	553,275	658,037	721,823	685,360	707,875	749,141	966,536
6. Reestimated net incurred claims and expenses:										
End of policy year	600,711	605,193	856,560	775,030	742,679	904,619	1,013,011	985,671	972,968	1,124,000
One year later	618,754	1,072,950	766,904	1,103,526	723,656	778,474	838,406	974,245	1,255,000	
Two years later	565,137	795,050	373,228	1,420,995	732,386	888,002	766,827	1,017,000		
Three years later	477,185	887,894	177,825	1,216,138	556,380	866,187	725,000			
Four years later	299,885	887,894	180,170	1,305,630	559,786	828,503				
Five years later	299,885	887,894	180,170	1,274,680	679,000					
Six years later	294,885	887,894	180,170	1,210,710						
Seven years later	294,885	887,893	180,170							
Eight Years Later	294,885	887,893								
Nine Years Later	294,885									
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	\$ (305,826)	\$ 282,700	\$ (676,390)	\$ 435,680	\$ (63,679)	\$ (76,116)	\$ (288,011)	\$ 31,329	\$ 282,032	\$ -

# GOLDEN STATE RISK MANAGEMENT AUTHORITY

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2016

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### 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.
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. This is the third year of the presentation and development of this information. In subsequent years as this information is developed, comparative years and reestimations will be presented.

## **SUPPLEMENTARY INFORMATION**

**GOLDEN STATE RISK MANAGEMENT AUTHORITY**

**GRAPHICAL SUMMARY OF CLAIMS**

**AS OF JUNE 30, 2016**

