

**CALIFORNIA INSURANCE
POOL AUTHORITY**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

NEWPORT BEACH, CALIFORNIA

JUNE 30, 2018

BOARD OF DIRECTORS

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ADMINISTRATION

Janet Kiser

Kiser & Company

General Manager

CALIFORNIA INSURANCE POOL AUTHORITY
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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
California Insurance Pool Authority
Newport Beach, California

Report on the Financial Statements

We have audited the accompanying financial statements of the California Insurance Pool Authority (CIPA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CIPA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 CIPA, as of June 30, 2018, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, reconciliation of claims liabilities by type of coverage on page 26 and 27, and claims development information on pages 28 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise CIPA's basic financial statements. The combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are the responsibility of management and were derived from and relate 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 basic 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 combining statement of net position and combining statement of revenues, expenses, and changes in fund net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

Prior-Year Comparative Information

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the CIPA's financial statements for the year ended June 30, 2017, from which such summarized information was derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of CIPA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CIPA's internal control over financial reporting and compliance.

Yavrinek, Trine, Day & Co., LLP

Laguna Hills, California

October 8, 2018

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Description of the Basic Financial Statements

CIPA's financial statements are prepared in conformity with generally accepted accounting principles and necessarily include amounts based upon reliable estimates and judgments. A Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are maintained along with the Notes to Financial Statements to clarify unique accounting policies. Separate enterprise funds are operated for the Liability and Workers' Compensation programs. The assets, liabilities, revenues, and expenses are reported on a full accrual basis.

The Statement of Net Position provides information on all CIPA program assets and liabilities, with the difference reported as Net Position. Net Position may be an indicator of the overall pool financial changes across years. The Statement of Revenues, Expenses and Changes in Net Position present information showing total revenues versus total expenses and the resulting effect on Net Position.

2017 to 2018 Analysis of Financial Position and Results of Operations

The overall net position increased 7%. The Liability Program net position increased 10% and the Workers' Compensation net position increased 5%. The following highlights the major changes:

- Cash and cash equivalents decreased \$864,170 (63%). At 6/30/17, the LAIF balance was \$1,086,723 and was reduced to \$226,682 at 6/30/18, a reduction of \$860,041. The bank balance at 6/30/17 was \$100,272 and increased to \$166,827 at 6/30/18. Cash equivalents held by Chandler were \$177,185 at 6/30/17 and \$106,501 at 6/30/18.
- Current receivables increased \$71,285 (20%). The increase is primarily due to a \$32,361 claim reimbursement due from a Member, the Liability assessment increased \$20,757 from \$326,567 to \$347,324, and a withdrawn Member opted to pay their assessment of \$20,741 in advance.
- The decrease in short term investments and increase in noncurrent investments was \$832,143 and \$3,343,974 respectively. The reduction in short term investments compared to 6/30/17 was primarily due to the balance of funds held in LAIF. The funds held in LAIF between 6/30/17 and 6/30/18 declined \$860,041. At 6/30/17, funds were maintained in LAIF for expected payment of claims. Non-current investments increased compared to 6/30/17 due to the transfer of funds from LAIF to Investments and investment earnings.
- Noncurrent receivables increased \$34,665 (3%). At 6/30/17, the noncurrent Liability assessment was \$326,567, an increase of \$20,757, and the Workers' Compensation assessment declined \$13,677.
- Accounts payable increased \$20,528 (167%) due to receipt of 2017/18 safety and legal services invoices after year-end.
- Due Members increased \$9,377 (38%). The increase is due to a higher workers' compensation payroll adjustment due to members than the prior year.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

- At 6/30/17, the actuary projected a decrease in the non-current Workers' Compensation assessments resulting in unearned assessments. The unearned assessment decreased \$22,437 (6%). The decrease was due to projection of actuary and the application of the Worker's Compensation assessment to the Liability assessment for a withdrawn member in the amount of \$9,210.
- Unpaid claims and claim adjustment expenses, noncurrent portion increased \$850,963 (4%). The actuary projected a decrease in the provision of loss reserves in the Liability Program of \$770,817. The Workers' Compensation program increased \$1,621,780 due to one serious claim.
- Contributions increased \$652,973 (7%) primarily due to increase in the Liability pool premium as projected by the actuary.
- Contributions-prior year assessments increased \$762,121 (229%). The primary change was in the Workers' Compensation program. At 6/30/17, the contributions-prior year assessments were (\$867,889) resulting in unearned assessments as calculated by the actuary. At 6/30/18, the contributions-prior year assessments were \$22,436.
- Excess insurance and joint purchase insurance programs remained stable with only a 3% increase.
- Claims paid decreased from \$4,579,705 to \$4,414,869 (4%). Liability claim payments increased and Workers' Compensation claim payments decreased. Liability claims paid during 2016/17 totaled \$4,016,554 compared to \$4,119,358 in 2017/18, an increase of \$102,804. Workers' Compensation claims paid during 2017/18 totaled \$295,511 compared to \$563,151 in 2016/17, a reduction of \$267,640. Claim payments fluctuate each year.
- Provision (credit) for loss reserves decreased as projected by the actuary. Liability loss projections increased \$4,212,495 at 6/30/17 and decreased \$770,812 at 6/30/18. Workers' Compensation loss projections at 6/30/17 increased \$348,087 and increased \$1,621,780 at 6/30/18. The Workers' Compensation increase was primarily due to one serious injury.
- Administration expenses increased \$43,124 (30%). The increase was due to legal general counsel expenses. The Liability Memorandum of Coverage was reviewed by legal counsel and revised for the 2018/19 renewal.
- Investment earnings net of fees declined by \$11,997 (28%). The market value adjustment at 6/30/17 was a negative \$410,976, and at 6/30/18 a negative \$533,032. Excluding the market value adjustment, the total investment earnings, net of fees during 2017/18 were \$563,538 compared to \$453,480 in 2016/17.

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Contacting CIPA's Financial Management

The financial report is designed to provide our membership, investors, and creditors with a general overview of CIPA's finances and to show CIPA's accountability for the money it receives. If you have any questions about this report or need additional information, contact management at 366 San Miguel Drive, Suite 312, Newport Beach, California 92660.

CONDENSED FINANCIAL INFORMATION

Statement of Net Position
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	2017-18 % Change
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 501,010	\$ 1,365,180	-63%
Receivables	419,917	348,632	20%
Short-term investments	6,091,858	6,924,001	-12%
Total Current Assets	<u>7,012,785</u>	<u>8,637,813</u>	-19%
Noncurrent Assets			
Receivables	1,388,623	1,353,958	3%
Investments	31,464,484	28,120,510	12%
Total Non-Current Assets	<u>32,853,107</u>	<u>29,474,468</u>	11%
Total Assets	<u>39,865,892</u>	<u>38,112,281</u>	5%
LIABILITIES			
Current Liabilities			
Accounts payable	32,820	12,292	167%
Due members	34,298	24,921	38%
Unearned assessments	370,095	392,532	-6%
Current portion of unpaid claims and claim adjustment expenses	3,106,796	3,106,796	0%
Total Current Liabilities	<u>3,544,009</u>	<u>3,536,541</u>	0%
Unpaid claims and claim adjustment expenses, noncurrent portion	23,110,268	22,259,305	4%
Total Liabilities	<u>26,654,277</u>	<u>25,795,846</u>	3%
NET POSITION			
Net Position-unrestricted	13,211,615	12,316,435	7%
Total Net Position	<u>\$ 13,211,615</u>	<u>\$ 12,316,435</u>	7%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	2017-18 % Change
Operating Revenues:			
Contributions	\$ 9,536,797	\$ 8,883,824	7%
Contributions-prior year assessments	429,186	(332,935)	229%
Excess insurance	(1,698,388)	(1,649,972)	3%
Joint purchase insurance	<u>(1,669,030)</u>	<u>(1,619,002)</u>	3%
Total Operating Revenues	<u>6,598,565</u>	<u>5,281,915</u>	25%
Operating Expenses:			
Claims paid	4,414,869	4,579,705	-4%
Provision (credit) for loss reserves	850,963	4,560,582	-81%
Litigation management services	56,670	56,639	0%
Risk management services	226,364	221,450	2%
Administration expenses	<u>185,025</u>	<u>141,901</u>	30%
Total Operating Expenses	<u>5,733,891</u>	<u>9,560,277</u>	-40%
Operating Income (loss)	864,674	(4,278,362)	-120%
Nonoperating Revenues:			
Investment earnings net of fees	<u>30,506</u>	<u>42,503</u>	-28%
Increase (Decrease) in Net Position	895,180	(4,235,859)	121%
Net Position, Beginning of Year	<u>12,316,435</u>	<u>16,552,294</u>	-26%
Net Position, End of Year	<u>\$ 13,211,615</u>	<u>\$ 12,316,435</u>	7%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

FINANCIAL INFORMATION BY FUND

Statement of Net Position
June 30, 2018 and 2017

LIABILITY

	<u>2018</u>	<u>2017</u>	<u>2017-18</u> <u>% Change</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 124,365	\$ 797,155	-84%
Receivables	412,303	332,171	24%
Short-term investments	<u>3,040,777</u>	<u>3,621,346</u>	-16%
Total Current Assets	<u>3,577,445</u>	<u>4,750,672</u>	-25%
Noncurrent Assets			
Receivables	1,388,623	1,353,958	3%
Investments	<u>15,705,634</u>	<u>14,707,406</u>	7%
Total Non-Current Assets	<u>17,094,257</u>	<u>16,061,364</u>	6%
Total Assets	<u>20,671,702</u>	<u>20,812,036</u>	-1%
LIABILITIES			
Current Liabilities			
Accounts payable	31,445	10,917	188%
Current portion of unpaid claims and claim adjustment expenses	<u>2,038,835</u>	<u>2,038,835</u>	0%
Total Current Liabilities	<u>2,070,280</u>	<u>2,049,752</u>	1%
Unpaid claims and claim adjustment expenses, noncurrent portion	<u>11,907,459</u>	<u>12,678,276</u>	-6%
Total Liabilities	<u>13,977,739</u>	<u>14,728,028</u>	-5%
NET POSITION			
Net Position-unrestricted	<u>6,693,963</u>	<u>6,084,008</u>	10%
Total Net Position	<u>\$ 6,693,963</u>	<u>\$ 6,084,008</u>	10%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Statement of Net Position
June 30, 2018 and 2017

WORKERS' COMPENSATION

	<u>2018</u>	<u>2017</u>	2017-18 % Change
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 376,645	\$ 568,025	-34%
Receivables	7,614	16,461	-54%
Short-term investments	3,051,081	3,302,655	-8%
Total Current Assets	<u>3,435,340</u>	<u>3,887,141</u>	-12%
Noncurrent Assets			
Investments	15,758,850	13,413,104	17%
Total Non-current Assets	<u>15,758,850</u>	<u>13,413,104</u>	17%
Total Assets	<u>19,194,190</u>	<u>17,300,245</u>	11%
LIABILITIES			
Current Liabilities			
Accounts payable	1,375	1,375	0%
Due members	34,298	24,921	38%
Unearned assessments	370,095	392,532	-6%
Current portion of unpaid claims and claim adjustment expenses	1,067,961	1,067,961	0%
Total Current Liabilities	<u>1,473,729</u>	<u>1,486,789</u>	-1%
Unpaid claims and claim adjustment expenses, noncurrent portion	11,202,809	9,581,029	17%
Total Liabilities	<u>12,676,538</u>	<u>11,067,818</u>	15%
NET POSITION			
Net Position-unrestricted	6,517,652	6,232,427	5%
Total Net Position	<u>\$ 6,517,652</u>	<u>\$ 6,232,427</u>	5%

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Statement of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

LIABILITY

	<u>2018</u>	<u>2017</u>	2017-18 % Change
Operating Revenues:			
Contributions	\$ 6,874,377	\$ 6,258,984	10%
Contributions-prior year assessments	406,750	534,954	-24%
Excess insurance	(1,375,705)	(1,336,690)	3%
Joint purchase insurance	(1,669,030)	(1,619,002)	3%
Total Operating Revenues	<u>4,236,392</u>	<u>3,838,246</u>	10%
 Operating Expenses:			
Claims paid	4,119,358	4,016,554	3%
Provision (credit) for loss reserves	(770,817)	4,212,495	-118%
Litigation management services	56,670	56,639	0%
Risk management services	113,182	110,725	2%
Administration expenses	137,870	98,963	39%
Total Operating Expenses	<u>3,656,263</u>	<u>8,495,376</u>	-57%
Operating Income (loss)	580,129	(4,657,130)	-112%
 Nonoperating Revenues:			
Investment earnings net of fees	<u>29,826</u>	<u>16,169</u>	84%
 Increase (Decrease) in Net Position	609,955	(4,640,961)	-113%
 Net Position, Beginning of Year	<u>6,084,008</u>	<u>10,724,969</u>	-43%
 Net Position, End of Year	<u>\$ 6,693,963</u>	<u>\$ 6,084,008</u>	10%

CALIFORNIA INSURANCE POOL AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years Ended June 30, 2018 and 2017

WORKERS' COMPENSATION

	<u>2018</u>	<u>2017</u>	<u>2017-18</u> <u>% Change</u>
Operating Revenues:			
Contributions	\$ 2,662,420	\$ 2,624,840	1%
Contributions-prior year assessments	22,436	(867,889)	103%
Excess insurance	<u>(322,683)</u>	<u>(313,282)</u>	3%
Total Operating Revenues	<u>2,362,173</u>	<u>1,443,669</u>	64%
Operating Expenses:			
Claims paid	295,511	563,151	-48%
Provision (credit) for loss reserves	1,621,780	348,087	366%
Risk management services	113,182	110,725	2%
Administration expenses	<u>47,155</u>	<u>42,938</u>	10%
Total Operating Expenses	<u>2,077,628</u>	<u>1,064,901</u>	95%
Operating Income (loss)	284,545	378,768	-25%
Nonoperating Revenues:			
Investment earnings net of fees	<u>680</u>	<u>26,334</u>	-97%
Increase (Decrease) in Net Position	285,225	405,102	-30%
Net Position, Beginning of Year	<u>6,232,427</u>	<u>5,827,325</u>	7%
Net Position, End of Year	<u>\$ 6,517,652</u>	<u>\$ 6,232,427</u>	5%

CALIFORNIA INSURANCE POOL AUTHORITY
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STATEMENT OF NET POSITION
(With Comparative Totals for the Year Ended June 30, 2017)

JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 501,010	\$ 1,365,180
Receivables	419,917	348,632
Short-term investments	<u>6,091,858</u>	<u>6,924,001</u>
Total Current Assets	<u>7,012,785</u>	<u>8,637,813</u>
Noncurrent Assets		
Receivables	1,388,623	1,353,958
Investments	<u>31,464,484</u>	<u>28,120,510</u>
Total Noncurrent Assets	<u>32,853,107</u>	<u>29,474,468</u>
Total Assets	<u>39,865,892</u>	<u>38,112,281</u>
 LIABILITIES		
Current Liabilities		
Accounts payable	32,820	12,292
Due members	34,298	24,921
Unearned assessments	370,095	392,532
Current portion of unpaid claims and claim adjustment expenses	<u>3,106,796</u>	<u>3,106,796</u>
Total Current Liabilities	<u>3,544,009</u>	<u>3,536,541</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	<u>23,110,268</u>	<u>22,259,305</u>
Total Liabilities	<u>26,654,277</u>	<u>25,795,846</u>
 NET POSITION		
Unrestricted	<u>13,211,615</u>	<u>12,316,435</u>
Total Net Position	<u>\$ 13,211,615</u>	<u>\$ 12,316,435</u>

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

CALIFORNIA INSURANCE POOL AUTHORITY
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STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
(With Comparative Totals for the Year Ended June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Contributions	\$ 9,536,797	\$ 8,883,824
Contributions-prior year assessments	429,186	(332,935)
Excess insurance	(1,698,388)	(1,649,972)
Joint purchase insurance	(1,669,030)	(1,619,002)
Total Operating Revenues	<u>6,598,565</u>	<u>5,281,915</u>
OPERATING EXPENSES		
Claims paid	4,414,869	4,579,705
Provision for loss reserves	850,963	4,560,582
Litigation management	56,670	56,639
Risk management services	226,364	221,450
Administration expenses	185,025	141,901
Total Operating Expenses	<u>5,733,891</u>	<u>9,560,277</u>
Operating Income (Loss)	864,674	(4,278,362)
NONOPERATING REVENUES		
Investment earnings net of fees	<u>30,506</u>	<u>42,503</u>
INCREASE/(DECREASE) IN NET POSITION	895,180	(4,235,859)
NET POSITION, BEGINNING OF YEAR	<u>12,316,435</u>	<u>16,552,294</u>
NET POSITION, END OF YEAR	<u>\$ 13,211,615</u>	<u>\$12,316,435</u>

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

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

STATEMENT OF CASH FLOWS
(With Comparative Totals for the Year Ended June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members and others	\$ 9,837,596	\$ 9,301,480
Cash paid for claims and settlements	(4,414,869)	(4,579,705)
Cash paid for insurance	(3,367,418)	(3,268,974)
Cash paid to suppliers for goods and services	(447,531)	(412,323)
Cash received from (paid to) members	<u>9,377</u>	<u>(272,259)</u>
Net Cash Provided by Operating Activities	<u>1,617,155</u>	<u>768,219</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(14,983,881)	(17,326,343)
Proceeds from maturities and sales of investment securities	12,472,050	14,748,835
Interest income	<u>30,506</u>	<u>42,503</u>
Net Cash Used by Investing Activities	<u>(2,481,325)</u>	<u>(2,535,005)</u>
 NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(864,170)	(1,766,786)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,365,180</u>	<u>3,131,966</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 501,010</u>	<u>\$ 1,365,180</u>
 RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income/(loss)	<u>\$ 864,674</u>	<u>\$ (4,278,362)</u>
Adjustments to reconcile operating (loss)/income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase)/Decrease in receivables	(105,950)	358,059
Increase in accounts payable	20,528	7,667
Increase in claims liabilities	850,963	4,560,582
Decrease in dividends payable	-	(275,396)
(Decrease)/Increase in due members and unearned assessments	<u>(13,060)</u>	<u>395,669</u>
Total Adjustments	<u>752,481</u>	<u>5,046,581</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,617,155</u>	<u>\$ 768,219</u>

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

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Description

California Insurance Pool Authority (CIPA) was established in 1978, under a Joint Powers Agreement pursuant to the provisions of Chapter 5 (beginning with Section 6500) of Division 7 of Title I of the State of California Government Code, for the purpose of reducing insurance costs through the joint purchase of liability insurance. In 1986, the liability program shifted to a “pooling” format. CIPA has group purchased excess workers’ compensation insurance since 1986. In response to adverse market conditions, CIPA established a workers’ compensation pool beginning June 1, 2002.

Since CIPA’s inception, group purchase options have been broadened to include Property, Earthquake, Boiler & Machinery, Pollution and Cyber Liability and Faithful Performance Bond. These fully insured policies are offered through joint purchase programs with no risk sharing between Members. Premium savings result from the group purchase of these policies and provide a well-rounded program to meet the insurance needs of Member Cities.

The Liability self-insured retention (SIR) for each Member City ranges between \$150,000 to \$500,000. Higher SIR’s are available and new members are offered SIR’s no lower than \$300,000. CIPA pools liability between each Members’ SIR and \$3,000,000. Commercial excess insurance is jointly purchased for limits of \$40,000,000 above \$3,000,000. CIPA’s pooled retention was \$2,000,000 prior to July 1, 2015. The total annual per occurrence and aggregate limit is \$43,000,000 per Member.

The Workers’ Compensation self-insured retention (SIR) for each Member City ranges between \$300,000 and \$500,000. Higher retention limits are available. CIPA group purchased excess insurance limits of \$50,000,000 above the pooled self-insured retention of \$3,000,000 in 2017-18. The Board approved increasing to statutory limits effective July 1, 2018.

The thirteen Members of CIPA operate within the guidelines of the Joint Powers Agreement which is approved by each Member’s elected officials. The financial and operating responsibilities are shared by all Members through a system of Member committees, management and consultants.

As of June 30, 2018, membership in CIPA was as follows:

City of Arcadia	City of Montclair
City of Brea	City of Orange
City of Buena Park	City of Tustin
City of Cypress	City of Westminster
City of Irvine	City of Whittier
City of Laguna Beach	City of Yorba Linda
City of La Habra	

Admission

Entities applying for membership must be approved by a majority vote of the Board Members present and voting.

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

Withdrawal/Termination

Members may withdraw from CIPA upon advance written notice subject to the participation agreement of each program. The effect of withdrawal (or termination), for the pooling programs, does not terminate the responsibility of the member to continue paying its share of assessments or other financial obligations incurred by reason of its previous participation.

The agreement contains provisions that require any member to remain in the program for a minimum period of two years. Thereafter the member agency may withdraw by giving written notice to the Board or its designee, on or before the next succeeding March 1, of the intent to withdraw as of 12:01 a.m. on the next July 1.

B. Description of Fund

The accounting records of CIPA are maintained in an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs of providing services on a continuing basis be financed through user charges.

C. Reporting Entity

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

CIPA has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth by accounting principles generally accepted in the United States of America. The criteria include, but are not limited to, whether the entity exercises fiscal accountability (which includes whether CIPA's governing body is substantially the same as a component unit's governing body, or if there is a financial benefit or burden relationship between CIPA and the component unit). CIPA 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.

D. Basis of Accounting

These statements were prepared on the accrual basis of accounting. Revenues from member contributions and interest from investments are recognized when earned. Expenses for vendor services are recognized when the services are provided. Expenses related to joint purchase premiums are recognized during the applicable policy period. Assessments and dividends are recognized during the fiscal year as calculated by the actuary. Claim reimbursements are recognized during the fiscal year in which they are incurred.

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

E. New GASB Pronouncements

Effective in Future Years

GASB Statement No. 83

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. CIPA has not determined the effect of the Statement.

GASB Statement No. 84

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. CIPA has not determined the effect of this Statement.

GASB Statement No. 87

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. CIPA has not determined the effect of the Statement.

GASB Statement No. 89

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. CIPA has not determined the effect of the Statement.

GASB Statement No. 90

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statements information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 or 2019-2020 fiscal year. CIPA has not determined the effect of the Statement.

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash in bank, investments in Local Agency Investment Fund, and all highly liquid debt instruments purchased with original maturity of three months or less.

G. Allowance for Doubtful Accounts

Accounts receivable generally includes investment earnings on deposits and member assessments. Management has analyzed these accounts and believes all amounts are fully collectible.

H. Investment Valuation

CIPA recognizes the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is 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. CIPA reported an unrealized loss in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, during the year ended June 30, 2018 in the amount of \$624,511. The unrealized loss is reported with other investment earnings as part of nonoperating revenues.

I. Claims Liabilities

CIPA establishes claim liabilities based on estimates of the ultimate cost of claims (including future allocated claim adjustment expense) that have been reported but not settled. The estimated amount of aggregate excess insurance recoverable on unpaid claims is 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.

J. Unallocated Loss Adjustment Expenses

Unallocated loss adjustment expenses (ULAE) are the indirect expenses to settle claims. These expenses are primarily administration and claims handling expenses.

Accounting standards require that ULAE be included in financial statements and that they be calculated by actuarial methods. CIPA has determined that there is no liability for ULAE.

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

K. Operating 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 non-exchange transactions or ancillary activities.

Operating revenue includes member contributions, related fees, and assessments, which are an integral part of the operations and financing of the covered risks and activities. Nonoperating income includes material activities that are not part of the core risk financing activities of the entity. Investment income is classified as nonoperating income.

L. Contribution Income

Member contributions are collected in advance and recognized as revenues in the period for which insurance protection is provided. If CIPA's Board of Directors determines that the insurance funds for a program, including anticipated investment income, are insufficient to pay losses, the JPA may impose a supplemental assessment on all participating members. Supplemental assessments are recognized as income in the period assessed, however, the assessments are paid to CIPA over a ten-year period or more if approved by the Board.

M. Income Taxes

CIPA's income is exempt from federal and state income taxes under Internal Revenue Code Section 115 and the corresponding section of the California Revenue and Taxation Code.

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

O. Comparative Data

Selected information from the prior fiscal year has been included in the accompanying financial statements in order to provide an understanding of changes in CIPA's financial position and operations. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CIPA's financial statements for the year ended June 30, 2017, from which this selected financial data was derived. Further, certain minor reclassifications of prior year data have been made in order to enhance its comparability with current year figures.

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 - CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Balance per bank	\$ 1,533,231	\$ 130,224
Less: Outstanding checks	<u>(1,366,404)</u>	<u>(29,952)</u>
Balance per books	166,827	100,272
Cash on hand	<u>1,000</u>	<u>1,000</u>
Cash on hand and in bank	167,827	101,272
Pooled funds:		
Cash in Local Agency Investment Fund	226,682	1,086,723
Money Market Funds	<u>106,501</u>	<u>177,185</u>
Total Cash and Equivalents	<u>501,010</u>	<u>1,365,180</u>
Investments	<u>37,556,342</u>	<u>35,044,511</u>
Total Cash and Investments	<u><u>\$ 38,057,352</u></u>	<u><u>\$ 36,409,691</u></u>

A. Cash and Equivalents

Cash in Bank

The carrying amount of CIPA's cash is covered by Federal depository insurance up to \$250,000. As of June 30, 2018, CIPA's deposits with financial institutions in excess of Federal depository insurance limits were \$1,283,231.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Local Agency Investment Fund

CIPA is a voluntary participant in Local Agency Investment Fund (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 CIPA's investment in this pool, which approximates cost, is reported in the accompanying financial statements based upon CIPA'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 and reported as cash equivalents in the statement of net position. 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. Deposits and withdrawals to and from LAIF are made on the basis of \$1 and not at fair value. Accordingly, under the fair value hierarchy, the investment with LAIF is uncategorized.

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. The value of the LAIF deposits as of June 30, 2018, was \$226,682 and had a weighted average maturity of 193 days. LAIF is 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.

B. Investments

Authorized Deposits/Investments

Under provisions of CIPA's Investment Policy, and in accordance with Section 53600 of the California Government Code, CIPA may invest in the following types of investments:

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in Any One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	30%
Municipal Securities	5 years	None	5%
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	25%	5%
Certificates of Deposit - Negotiable	5 years	30%	5%
Certificates of Deposit - Non-negotiable	5 years	30%	5%
Corporate Notes	5 years	30%	5%
Mortgage Obligations/Asset Backed Securities	5 years	20%	5%
Money Market Mutual Funds	None	20%	10%
Local Agency Investment Fund	None	None*	None
Supranationals	5 years	30%	10%

*LAIF has a \$65 million maximum investment limit per account

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. CIPA's investment policy contains policy requirements that would limit the exposure to custodial credit risk for investments. Securities purchased from brokers/dealers shall be held in third party safekeeping by the trust department of CIPA's bank or other trustee. Securities are to be held in the name of CIPA, and are to be purchased on a delivery vs. payment (DVP) basis only. Investments with various federal agencies, commercial paper, mortgage obligations, asset backed securities, and corporate notes with a fair value of \$37,556,342 at June 30, 2018, are held by CIPA's custodian bank.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that CIPA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

As of June 30, 2018, CIPA had the following investments:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasury Obligations	\$ 10,109,144	\$ 348,033	\$ 4,146,003	\$ 5,615,108
U.S. Agency Securities	13,150,398	2,716,905	4,476,458	5,957,035
Mortgage Obligations/Asset Backed Securities	2,709,037	32,516	562,428	2,114,093
Corporate Notes	9,385,216	1,691,598	1,925,807	5,767,811
Commercial Paper	348,555	348,555	-	-
Certificates of Deposit - Negotiable	954,251	954,251	-	-
Supranationals	899,741	-	-	899,741
Total	\$ 37,556,342	\$ 6,091,858	\$ 11,110,696	\$ 20,353,788

CIPA's investments are presented in the Statement of Net Position as follows:

	2018	2017
Current Investments	\$ 6,091,858	\$ 6,924,001
Non-current Investments	31,464,484	28,120,510
Total Investments	\$ 37,556,342	\$ 35,044,511

CALIFORNIA INSURANCE POOL AUTHORITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code and CIPA's investment policy, and the actual rating as of year-end for each investment type as rated by Moody's.

Investment Type	Fair Value	S&P/Moody's Minimum Legal Rating	Exempt from Disclosure	Ratings as of June 30:				
				Aaa*	Aa1 -Aa3	A1	A2	P-1
U.S. Treasury Obligations	\$ 10,109,144	N/A	\$ 10,109,144	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	13,150,398	N/A	-	13,150,398	-	-	-	-
Mortgage Obligations/ Asset Backed Securities*	2,709,037	AA/Aa2	-	2,709,037	-	-	-	-
Corporate Notes	9,385,216	A/A2	-	849,412	1,290,292	3,224,053	4,021,459	-
Commercial Paper	348,555	A/P-1	-	-	-	-	-	348,555
Certificates of Deposit - Negotiable	954,251	A/A2	-	-	-	-	-	954,251
Supranationals	899,741	AA/Aa2	-	899,741	-	-	-	-
Total	\$ 37,556,342		\$ 10,109,144	\$ 17,608,588	\$ 1,290,292	\$ 3,224,053	\$ 4,021,459	\$ 1,302,806

*\$98,867 of securities rated as AAA by S&P, but not rated by Moody's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. The investment policy of CIPA contains limitations on the amounts that can be invested in any one issuer. Investments in any one issuer that represent 5 percent or more of total CIPA investments are as follows:

Issuer	Investment Type	Fair Value
Federal Home Loan Banks	U.S. Agency Securities	\$ 4,059,299
Federal National Mortgage Association	U.S. Agency Securities	4,668,081
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	3,577,698

Fair Value Measurements

Fair value measurements are categorized based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs, including matrix pricing models; Level 3 inputs are significant unobservable inputs.

Investment fair value measurements as of June 30, 2018 are as follows:

Investment Type	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Obligations	\$ 10,109,144	\$ -	\$ 10,109,144	\$ -
U.S. Agency Securities	13,150,398	-	13,150,398	-
Mortgage Obligations/Asset Backed Securities	2,709,037	-	2,709,037	-
Corporate Notes	9,385,216	-	9,385,216	-
Commercial Paper	348,555	-	348,555	-
Certificates of Deposit - Negotiable	954,251	-	954,251	-
Supranationals	899,741	-	899,741	-
Total	\$ 37,556,342	\$ -	\$ 37,556,342	\$ -

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that the GASB Statements require or permit in the statement of net position at the end of each reporting period.

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

Interest receivable and other receivable	13,880
Member assessments	1,794,660
Total Accounts Receivable	1,808,540
Member assessments considered non-current receivables	(1,388,623)
Current Accounts Receivable	\$ 419,917

NOTE 4 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

Claims	\$ 32,820
Total Accounts Payable	\$ 32,820

NOTE 5 - RECONCILIATION OF CLAIMS LIABILITY

As discussed in Note 1, CIPA establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related legal expenses. The following represents changes in those aggregate liabilities for CIPA during the fiscal year ended June 30:

	2018	2017
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 25,366,101	\$ 20,805,519
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	5,900,211	6,210,299
Increase/(decrease) in provision for insured events of prior fiscal years	(634,379)	2,929,988
Total incurred claims and claim adjustment expenses	5,265,832	9,140,287
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	4,414,869	4,579,705
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 26,217,064	\$ 25,366,101

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

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

	<u>2018</u>	<u>2017</u>
Total	\$ 26,217,064	\$ 25,366,101
Current portion of unpaid claims and claim adjustment expenses	<u>(3,106,796)</u>	<u>(3,106,796)</u>
Unpaid claims and claim adjustment expenses, noncurrent	<u>\$ 23,110,268</u>	<u>\$ 22,259,305</u>

At June 30, 2018 and 2017, estimated unpaid losses of \$28,652,401 and \$27,697,528, respectively, are reflected at their net present values of \$26,217,064 and \$25,366,101, respectively. At June 30, 2018 and 2017, unpaid losses are discounted at three percent.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Litigation

CIPA is involved in various litigation from time to time arising from the normal course of business. In the opinion of management and legal counsel, CIPA is not involved in any litigation that is expected to have a material adverse effect on the overall financial position of CIPA at June 30, 2018.

NOTE 7 - SUBSEQUENT EVENTS

The City of Westminster withdrew from CIPA for the 2018/2019 policy year, in accordance with the Joint Powers Agreement for CIPA.

REQUIRED SUPPLEMENTARY INFORMATION

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF COVERAGE
JUNE 30, 2018

	Liability	
	Current Year	Prior Year
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	<u>\$ 14,717,111</u>	<u>\$ 10,504,616</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	3,302,893	4,158,066
Increase (decrease) in provision for insured events of prior fiscal years	<u>45,648</u>	<u>4,070,983</u>
Total incurred claims and claim adjustment expenses	<u>3,348,541</u>	<u>8,229,049</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>4,119,358</u>	<u>4,016,554</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u><u>\$ 13,946,294</u></u>	<u><u>\$ 14,717,111</u></u>

Workers' Compensation		Total	
Current Year	Prior Year	Current Year	Prior Year
\$ 10,648,990	\$ 10,300,903	\$ 25,366,101	\$ 20,805,519
2,597,318	2,052,233	5,900,211	6,210,299
(680,027)	(1,140,995)	(634,379)	2,929,988
1,917,291	911,238	5,265,832	9,140,287
295,511	563,151	4,414,869	4,579,705
<u>\$ 12,270,770</u>	<u>\$ 10,648,990</u>	<u>\$ 26,217,064</u>	<u>\$ 25,366,101</u>

**CALIFORNIA INSURANCE POOL AUTHORITY
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**TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –
LIABILITY AND WORKERS' COMPENSATION PROGRAMS
JUNE 30, 2018**

The following table illustrates how CIPA's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurance) and other expenses assumed by CIPA as of the end of each of the past years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to excess insurance, and net earned contribution revenue and reported investment revenue. (2) This line shows each fiscal year's other operating costs of CIPA including overhead and claims expense not allocable to individual claims. (3) This line shows CIPA's gross incurred claims and allocated claim adjustment expenses, claims assumed by excess insurance, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by excess insurance as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known). (7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –
LIABILITY PROGRAM
JUNE 30, 2018

	June 30,			
	2009	2010	2011	2012
(1) Required Contribution and Investment Revenue:				
Earned	\$ 5,284,065	\$ 5,300,698	\$ 6,233,743	\$ 5,002,193
Dividends	-	(482,930)	(421,547)	(421,548)
Ceded	<u>(2,610,367)</u>	<u>(2,872,267)</u>	<u>(2,653,752)</u>	<u>(3,026,555)</u>
Net earned	<u>2,673,698</u>	<u>1,945,501</u>	<u>3,158,444</u>	<u>1,554,090</u>
(2) Unallocated Expenses	<u>160,750</u>	<u>184,739</u>	<u>184,975</u>	<u>231,102</u>
(3) Estimated Claims and Expenses, End of Policy Year:				
Incurred	<u>2,491,264</u>	<u>1,313,205</u>	<u>2,647,225</u>	<u>1,654,749</u>
Net incurred	<u>2,491,264</u>	<u>1,313,205</u>	<u>2,647,225</u>	<u>1,654,749</u>
(4) Net Paid (cumulative as of):				
June 30, 2009	-	-	-	-
June 30, 2010	-	-	-	-
June 30, 2011	167,530	-	-	-
June 30, 2012	167,530	-	433,532	-
June 30, 2013	167,530	184,698	433,532	-
June 30, 2014	167,530	358,147	2,156,064	21,799
June 30, 2015	311,728	467,934	3,076,502	1,847,035
June 30, 2016	325,880	1,207,476	3,089,344	1,860,032
June 30, 2017	311,728	1,047,687	3,050,461	2,520,947
June 30, 2018	1,667,140	1,157,642	3,050,461	3,949,974
(5) Re-Estimated Ceded Claims and Expenses				
(6) Re-Estimated Net Incurred Claims and Expenses:				
June 30, 2009	2,491,264	-	-	-
June 30, 2010	1,842,185	1,313,205	-	-
June 30, 2011	2,005,301	610,869	2,647,225	-
June 30, 2012	803,316	1,078,417	3,651,306	1,654,749
June 30, 2013	167,530	1,123,251	3,407,276	1,317,569
June 30, 2014	251,125	847,006	3,761,321	1,553,266
June 30, 2015	492,433	1,219,669	3,408,348	2,514,214
June 30, 2016	505,633	1,459,923	3,478,013	2,287,385
June 30, 2017	1,757,089	1,397,776	3,213,216	3,642,046
June 30, 2018	2,024,584	1,544,835	3,067,371	3,983,532
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ 466,680</u>	<u>\$ (231,630)</u>	<u>\$ (420,146)</u>	<u>\$ (2,328,783)</u>

June 30,					
2013	2014	2015	2016	2017	2018
\$ 4,773,505	\$ 5,934,271	\$ 5,505,079	\$ 6,628,269	\$ 6,810,107	\$ 7,310,953
(421,549)	(482,930)	(482,930)	(275,395)	-	-
(2,989,114)	(3,281,099)	(3,301,185)	(3,298,158)	(2,955,692)	(3,044,735)
<u>1,362,842</u>	<u>2,170,242</u>	<u>1,720,964</u>	<u>3,054,716</u>	<u>3,854,415</u>	<u>4,266,218</u>
232,446	195,955	225,700	213,627	266,327	307,722
1,990,342	2,039,108	2,124,337	2,586,954	4,158,066	3,302,893
<u>1,990,342</u>	<u>2,039,108</u>	<u>2,124,337</u>	<u>2,586,954</u>	<u>4,158,066</u>	<u>3,302,893</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
112,359	-	47,177	-	-	-
489,275	452,431	3,250,000	-	-	-
1,210,202	452,431	3,750,000	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,990,342	-	-	-	-	-
1,309,025	2,039,108	-	-	-	-
1,599,713	2,277,242	2,124,337	-	-	-
3,451,186	1,503,056	2,505,722	2,586,954	-	-
3,568,539	1,309,302	5,057,264	2,688,943	4,158,066	-
3,422,714	1,077,445	5,126,370	2,390,792	4,119,308	3,302,893
<u>\$ (1,432,372)</u>	<u>\$ 961,663</u>	<u>\$ (3,002,033)</u>	<u>\$ 196,162</u>	<u>\$ 38,758</u>	<u>\$ -</u>

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION –
WORKERS' COMPENSATION PROGRAM
JUNE 30, 2018

	June 30,			
	2009	2010	2011	2012
(1) Required Contribution and Investment Revenue:				
Earned	\$ 1,848,379	\$ 1,637,996	\$ 2,456,590	\$ 2,300,450
Dividends				
Ceded	(333,662)	(342,476)	(242,957)	(203,397)
Net earned	<u>1,514,717</u>	<u>1,295,520</u>	<u>2,213,633</u>	<u>2,097,053</u>
(2) Unallocated Expenses	<u>164,922</u>	<u>145,681</u>	<u>147,301</u>	<u>156,249</u>
(3) Estimated Claims and Expenses, End of Policy Year:				
Incurred	<u>611,268</u>	<u>620,509</u>	<u>2,694,249</u>	<u>1,306,328</u>
Net incurred	<u>611,268</u>	<u>620,509</u>	<u>2,694,249</u>	<u>1,306,328</u>
(4) Net Paid (cumulative as of):				
June 30, 2009	-	-	-	-
June 30, 2010	-	-	-	-
June 30, 2011	-	-	-	-
June 30, 2012	-	-	-	-
June 30, 2013	17,434	-	-	-
June 30, 2014	311,071	-	-	-
June 30, 2015	705,413	-	43,333	-
June 30, 2016	766,342	-	94,429	-
June 30, 2017	825,887	-	147,338	177,125
June 30, 2018	877,658	-	177,892	184,189
(5) Re-Estimated Ceded Claims and Expenses				
(6) Re-Estimated Net Incurred Claims and Expenses:				
June 30, 2009	611,268	-	-	-
June 30, 2010	382,870	620,509	-	-
June 30, 2011	1,563,216	1,117,853	2,694,249	-
June 30, 2012	3,334,101	1,016,334	1,019,759	1,306,328
June 30, 2013	2,810,023	669,442	880,057	871,245
June 30, 2014	2,151,159	637,175	732,173	1,207,638
June 30, 2015	1,862,782	655,103	766,770	984,359
June 30, 2016	1,448,781	619,998	668,416	1,120,076
June 30, 2017	1,389,221	330,128	448,381	1,093,446
June 30, 2018	1,436,621	359,290	572,971	1,428,440
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (825,353)</u>	<u>\$ 261,219</u>	<u>\$ 2,121,278</u>	<u>\$ (122,112)</u>

June 30,					
2013	2014	2015	2016	2017	2018
\$ 1,696,012	\$ 2,057,613	\$ 3,801,453	\$ 1,693,311	\$ 1,783,285	\$ 2,685,536
<u>(426,307)</u>	<u>(406,157)</u>	<u>(458,363)</u>	<u>(293,113)</u>	<u>(313,282)</u>	<u>(322,683)</u>
1,269,705	1,651,456	3,343,090	1,400,198	1,470,003	2,362,853
<u>135,295</u>	<u>139,883</u>	<u>151,775</u>	<u>153,008</u>	<u>153,663</u>	<u>160,337</u>
862,234	921,243	1,630,425	1,982,104	2,052,233	2,597,318
<u>862,234</u>	<u>921,243</u>	<u>1,630,425</u>	<u>1,982,104</u>	<u>2,052,233</u>	<u>2,597,318</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,692	-	258,457	-	-	-
26,753	-	263,728	-	-	-
29,525	-	276,162	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
862,234	-	-	-	-	-
1,162,429	1,367,907	-	-	-	-
876,466	921,243	1,630,425	-	-	-
779,083	919,974	1,219,075	1,982,104	-	-
666,166	810,166	1,268,907	1,874,410	2,052,233	-
357,896	698,104	1,293,547	1,509,091	2,019,011	2,597,318
<u>\$ 504,338</u>	<u>\$ 223,139</u>	<u>\$ 336,878</u>	<u>\$ 473,013</u>	<u>\$ 33,222</u>	<u>\$ -</u>

***SUPPLEMENTARY
INFORMATION***

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Liability</u>	<u>Workers'</u> <u>Compensation</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 124,365	\$ 376,645	\$ 501,010
Receivables	412,303	7,614	419,917
Short-term investments	<u>3,040,777</u>	<u>3,051,081</u>	<u>6,091,858</u>
Total Current Assets	<u>3,577,445</u>	<u>3,435,340</u>	<u>7,012,785</u>
Noncurrent Assets			
Receivables	1,388,623	-	1,388,623
Investments	<u>15,705,634</u>	<u>15,758,850</u>	<u>31,464,484</u>
Total Noncurrent Assets	<u>17,094,257</u>	<u>15,758,850</u>	<u>32,853,107</u>
Total Assets	<u>20,671,702</u>	<u>19,194,190</u>	<u>39,865,892</u>
LIABILITIES			
Current Liabilities			
Accounts payable	31,445	1,375	32,820
Due members	-	34,298	34,298
Unearned assessments	-	370,095	370,095
Current portion of unpaid claims and claim adjustment expenses	<u>2,038,835</u>	<u>1,067,961</u>	<u>3,106,796</u>
Total Current Liabilities	<u>2,070,280</u>	<u>1,473,729</u>	<u>3,544,009</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	<u>11,907,459</u>	<u>11,202,809</u>	<u>23,110,268</u>
Total Liabilities	<u>13,977,739</u>	<u>12,676,538</u>	<u>26,654,277</u>
NET POSITION			
Unrestricted	<u>6,693,963</u>	<u>6,517,652</u>	<u>13,211,615</u>
Total Net Position	<u>\$ 6,693,963</u>	<u>\$ 6,517,652</u>	<u>\$ 13,211,615</u>

CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)

COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Liability	Workers' Compensation	Total
OPERATING REVENUES			
Contributions	\$ 6,874,377	\$ 2,662,420	\$ 9,536,797
Contributions-prior year assessments	406,750	22,436	429,186
Excess insurance	(1,375,705)	(322,683)	(1,698,388)
Joint purchase insurance	(1,669,030)	-	(1,669,030)
Total Operating Revenues	<u>4,236,392</u>	<u>2,362,173</u>	<u>6,598,565</u>
OPERATING EXPENSES			
Claims paid	4,119,358	295,511	4,414,869
Provision for loss reserves	(770,817)	1,621,780	850,963
Litigation management	56,670	-	56,670
Risk management services	113,182	113,182	226,364
Administration expenses	137,870	47,155	185,025
Total Operating Expenses	<u>3,656,263</u>	<u>2,077,628</u>	<u>5,733,891</u>
Operating Income (loss)	580,129	284,545	864,674
NONOPERATING REVENUES			
Investment earnings net of fees	<u>29,826</u>	<u>680</u>	<u>30,506</u>
INCREASE (DECREASE) IN NET POSITION	609,955	285,225	895,180
NET POSITION, BEGINNING OF YEAR	<u>6,084,008</u>	<u>6,232,427</u>	<u>12,316,435</u>
NET POSITION, END OF YEAR	<u>\$ 6,693,963</u>	<u>\$ 6,517,652</u>	<u>\$ 13,211,615</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
California Insurance Pool Authority
Newport Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California Insurance Pool Authority (CIPA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise CIPA's basic financial statements, and have issued our report thereon dated October 8, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CIPA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CIPA's internal control. Accordingly, we do not express an opinion on the effectiveness of CIPA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CIPA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yavrinek, Trine, Day & Co., LLP

Laguna Hills, California
October 8, 2018

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**FINANCIAL STATEMENT FINDINGS
JUNE 30, 2018**

None reported.

**CALIFORNIA INSURANCE POOL AUTHORITY
(A Joint Powers Authority)**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018**

None reported.