



Financial Statements  
June 30, 2020

# California Insurance Pool Authority

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Janet Kiser	Kiser & Company	General Manager
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## Independent Auditor's Report

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, 2020, 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.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2020, 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, reconciliation of claims liabilities by type of coverage, and claims development information as shown in the table of contents, 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. We have previously audited the 2019 financial statements of CIPA, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, 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 solely 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 effectiveness of CIPA's 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.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California  
October 23, 2020

## 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.

### Statement of Net Position

The Statement of Net Position provides information on all CIPA program assets and liabilities, with the difference reported as Net Position as summarized below:

	2020	2019	% Change
Total Assets	\$47,387,574	\$42,344,906	12%
Total Liabilities	\$31,623,688	\$27,076,879	17%
Net Position	\$15,763,886	\$15,268,027	3%

#### Assets

Total assets increased \$5,042,668 (12%) with a decrease in total current assets of \$780,921 (4%) and increase in noncurrent assets of \$5,823,589 (23%). As investments matured in 2018/19, they were transferred to short-term investments in anticipation of a claim payment. Sufficient cash and cash equivalents were available during 2019/20 to allow for reinvestment into longer-term investments and thus the resulting increase in noncurrent assets.

Current receivables declined \$93,852 (31%) primarily due to a reduction of \$79,652 in liability assessments as calculated by the actuary. Noncurrent receivables increased \$361,758 (51%) compared to the prior fiscal year. The increase is due to the actuary's calculation of outstanding long-term liability assessments due. The projection of future assessments takes into consideration the change in prior year assessments, plus the addition of a new year into the assessment calculation. No assessments are projected for the workers' compensation program.

#### Liabilities

Total liabilities increased \$4,546,809 (17%). Current liabilities declined slightly by 2% and the noncurrent portion of unpaid claims and claim adjustment expenses increased \$4,638,313 (21%). Most of this increase was due to adverse claim development in the liability program which increased \$3,306,550 (37%) as projected by the actuary.

Workers' Compensation has remained more stable with a 10% increase in the noncurrent portion of unpaid claims and claims adjustment expenses. This increase is due to higher payroll exposure and an additional year of coverage.

**Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents information showing total revenues versus total expenses and the resulting effect on Net Position as summarized in the chart below:

	2020	2019	% Change
Total Operating Revenues	\$7,678,811	\$6,418,797	20%
Total Operating Expenses	\$9,125,945	\$6,056,870	51%
Operating Income (Loss)	(\$1,447,134)	\$361,927	-500%
Nonoperating Revenues	\$1,942,993	\$1,694,485	15%
Investment Income	\$1,942,993	\$1,694,485	15%
Increase in Net Position	\$15,763,886	\$15,268,027	3%

Revenues

Revenue from contributions increased \$1,585,264 (16%). Liability contributions increased 20% due to the upward trend in excess liability premiums and the addition of the City of Carlsbad to the program. Worker's compensation contributions increased 5% due to higher payroll. The property premium, a pass thru expense, increased 31% driven by an overall increase in rates and higher total insurable values. The bond premium remained flat.

Contributions-prior year assessments increased \$530,774 in the liability program as projected by the actuary. No workers' compensation assessments were projected by the actuary for the 2019/20 fiscal year or for future years.

Expenses

Total operating expenses increased \$3,069,075 (51%). While claims paid during the fiscal year declined 17% and administrative fees declined 19%, the provision for loss reserves increased \$3,886,297 (517%) which accounts for the operating loss. The liability program contributed \$4,408,616 to the provision for loss reserves and the workers' compensation program decreased loss reserves by \$522,319.

Administration expenses decreased \$31,973 (19%) due to having expense of biannual claims audit in prior fiscal year and not in current fiscal year, and due to reduction in travel/meeting expenses because of COVID-19.

**Cash & Cash Equivalents, and Investments**

Cash & cash equivalents increased \$3,739,043 (52%) in anticipation of a claim payment which will be reimbursed by the reinsurer. The claim has been settled and payment is now expected in the first half of 2020/21. Having achieved sufficient cashflow during 2019/20 to meet claim payment obligations prior to the reinsurer's reimbursement, funds have been transferred from short-term investments into long-term investments as they mature. Cash and cash equivalents, and investments increased 12% compared to the prior fiscal year.



	2020	2019	% Change
Cash & Cash Equivalents	\$10,919,170	\$7,180,127	52%
Short Term Investments	\$5,498,240	\$9,924,352	-45%
Noncurrent Investments	\$29,694,695	\$24,232,864	23%
Total	\$46,112,105	\$41,337,343	12%

Investment earnings net of fees increased \$248,508 (15%) compared to the prior fiscal year due to increase in funds invested, higher interest rates earned, and market value adjustment. Total investment earnings net of fees were \$1,942,993 compared to \$1,694,485 in the prior fiscal year. The net change in market value adjustment was \$941,899 compared to \$852,958 in the prior fiscal year.

### **Liability Program**

The net position of the liability program decreased 9% from \$7,891,436 in the prior fiscal year to \$7,178,992 at 2019/20 fiscal year-end. Total assets increased 12% and total liabilities increased 26% due largely to noncurrent unpaid claims and claim adjustment expenses as projected by the actuary. Losses spiked in 2016/17 with two claims exceeding CIPA's pool retention.

The loss experience for all public agencies has been accelerating over the last few years due to unprecedented high jury verdicts, settlements, defense costs and unfavorable legal climate. This trend is not expected to abate.

Claim payments fluctuate from year-to-year and decreased from \$4,229,454 in the prior fiscal year to \$3,281,118 in 2019/20, a 22% reduction.

### **Workers' Compensation Program**

The net position of the workers' compensation program increased 16% from \$7,376,591 in the prior fiscal year to \$8,584,894 at 2019/20 fiscal year-end. Total assets increased 11% and total liabilities increased 9% due to additional year of coverage. In 2018/19, CIPA decreased the pool retention from \$3,000,000 to \$2,000,000 which increased excess workers' compensation premium and decreased projected ultimate losses beginning in 2018/19.

### **Contacting CIPA's Financial Management**

This financial report is designed to provide a general overview and accountability of finances for all those with an interest in CIPA's finances. 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.

California Insurance Pool Authority  
Statement of Net Position  
(With Comparative Totals as of June 30, 2019)  
June 30, 2020

	2020	2019
Assets		
Current Assets		
Cash and Cash Equivalents	\$ 10,919,170	7,180,127
Receivables	207,959	301,811
Short-Term Investments	5,498,240	9,924,352
Total Current Assets	16,625,369	17,406,290
Noncurrent Assets		
Receivables	1,067,510	705,752
Investments	29,694,695	24,232,864
Total Noncurrent Assets	30,762,205	24,938,616
Total Assets	47,387,574	42,344,906
Liabilities		
Current Liabilities		
Accounts Payable	8,185	24,470
Due Members	8,110	83,329
Current Portion of Unpaid Claims and Claim Adjustment Expenses	4,951,456	4,951,456
Total Current Liabilities	4,967,751	5,059,255
Unpaid Claims and Claim Adjustment Expenses, Noncurrent Portion	26,655,937	22,017,624
Total Liabilities	31,623,688	27,076,879
Net Position		
Unrestricted	15,763,886	15,268,027
Total Net Position	\$ 15,763,886	15,268,027

California Insurance Pool Authority  
Statement of Revenues, Expenses and Changes in Net Position  
(With Comparative Totals for the Year Ended June 30, 2019)  
For the Year Ended June 30, 2020

	2020	2019
Operating Revenues		
Contributions	\$ 11,637,962	10,052,698
Contributions-prior year assessments	517,996	(12,778)
Excess insurance	(2,216,024)	(1,890,896)
Joint purchase insurance	(2,261,123)	(1,730,227)
Total Operating Revenues	7,678,811	6,418,797
Operating Expenses		
Claims paid	3,940,718	4,768,650
Provision for loss reserves	4,638,313	752,016
Litigation management	63,106	33,001
Risk management services	343,578	331,000
Administration expenses	140,230	172,203
Total Operating Expenses	9,125,945	6,056,870
Operating Income (Loss)	(1,447,134)	361,927
Nonoperating Revenues		
Investment earnings net of fees	1,942,993	1,694,485
Increase in Net Position	495,859	2,056,412
Net Position, Beginning of Year	15,268,027	13,211,615
Net Position, End of Year	\$ 15,763,886	15,268,027

California Insurance Pool Authority  
Statement of Cash Flows  
(With Comparative Totals for the Year Ended June 30, 2019)  
For the Year Ended June 30, 2020

	2020	2019
Cash Flows from Operating Activities		
Cash received from members and others	\$ 11,812,833	\$10,519,833
Cash paid for claims and settlements	(3,940,718)	(4,768,650)
Cash paid for insurance	(4,477,147)	(3,621,123)
Cash paid to suppliers for goods and services	(563,199)	(544,554)
Net Cash Provided by Operating Activities	2,831,769	1,585,506
Cash Flows from Investing Activities		
Purchase of investment securities	(16,331,245)	(11,898,909)
Proceeds from maturities and sales of investment securities	16,237,425	16,150,993
Interest income	1,001,094	841,527
Net Cash Used by Investing Activities	907,274	5,093,611
Net (Decrease) in Cash and Cash Equivalents	3,739,043	6,679,117
Cash and Cash Equivalents, Beginning of Year	7,180,127	501,010
Cash and Cash Equivalents, End of Year	\$ 10,919,170	\$ 7,180,127
Reconciliation of Operating Income/(Loss) to Net Cash Flows from Operating Activities		
Operating income/(loss)	\$ (1,447,134)	\$361,927
Adjustments to reconcile operating (loss)/income to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase)/Decrease in receivables	(267,906)	800,977
Decrease in accounts payable	(16,285)	(8,350)
Increase in claims liabilities	4,638,313	752,016
Decrease in due members	(75,219)	(321,064)
Total Adjustments	4,278,903	1,223,579
Net Cash Provided (Used) by Operating Activities	\$ 2,831,769	\$ 1,585,506

**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. 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 \$1,000,000. Higher SIR’s are available and new members are offered SIR’s no lower than \$300,000. CIPA pools liability coverage 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 current Workers’ Compensation SIR for each Member City ranges between \$300,000 and \$500,000. CIPA group purchased excess workers’ compensation coverage with a limit of \$50,000,000 above CIPA’s pooled retention prior to July 1, 2018. Statutory limits have been group purchased since 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, 2020, membership in CIPA was as follows:

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

### **Admission**

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

### **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.

**E. 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.

**F. 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.

**G. 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 gain 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, 2020 in the amount of \$941,899. The unrealized gain is reported with other investment earnings as part of nonoperating revenues.

**H. 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 at an expected confidence level 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.

**I. 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 recorded \$150,000 for ULAE as of June 30, 2020.

**J. 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.

**K. 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.

**L. 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*.

**M. 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.

**N. 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, 2019, from which this selected financial data was derived.



**Note 2 - Cash and Investments**

Cash and investments consisted of the following at June 30:

	2020	2019
Balance per bank	\$ 462,895	\$ 331,546
Less: Outstanding checks	(454,878)	(1,762,646)
Balance per books	8,017	(1,431,100)
Cash on hand	1,000	1,000
Cash on hand and in bank	9,017	(1,430,100)
Pooled funds:		
Cash in Local Agency Investment Fund	10,325,841	5,305,146
Money Market Funds	584,312	3,305,081
Total Cash and Equivalents	10,919,170	7,180,127
Pooled funds:		
Investments	35,192,935	34,157,216
Total Cash and Investments	\$ 46,112,105	\$ 41,337,343

**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, 2020, CIPA's deposits with financial institutions in excess of Federal depository insurance limits were \$212,895.

**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.

### **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, 2020, was \$10,325,841 and had a weighted average maturity of 191 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:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment in Any One Issuer</u>
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

**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, mortgage obligations, asset backed securities, corporate notes, and supranationals with a fair value of \$35,192,935 at June 30, 2020, 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.

California Insurance Pool Authority  
Notes to Financial Statements  
June 30, 2020

As of June 30, 2020, CIPA had the following investments:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasury Obligations	\$ 9,497,014	\$ 1,506,313	\$ 2,127,841	\$ 5,862,860
U.S. Agency Securities	12,729,340	1,089,514	4,228,555	7,411,271
Mortgage Obligations/Asset Backed Securities	2,328,786	105,604	159,329	2,063,853
Corporate Notes	9,448,516	2,564,313	2,156,245	4,727,958
Municipal Securities	240,046	-	-	240,046
Supranationals	949,233	232,496	716,737	-
Total	<u>\$ 35,192,935</u>	<u>\$ 5,498,240</u>	<u>\$ 9,388,707</u>	<u>\$ 20,305,988</u>

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

	2020	2019
Current Investments	<u>\$ 5,498,240</u>	<u>\$ 9,924,352</u>
Non-current Investments	<u>29,694,695</u>	<u>24,232,864</u>
Total Investments	<u>\$ 35,192,935</u>	<u>\$ 34,157,216</u>

### 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 Legal Rating	Exempt from Disclosure	Ratings as of June 30:				
				Aaa*	Aa1-Aa3	A1	A2	A3**
U.S. Treasury Obligations	\$ 9,497,014	N/A	\$ 9,497,014	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. Agency Securities	12,729,340	N/A	-	12,729,340	-	-	-	-
Mortgage Obligations/Asset Backed Securities	2,328,786	AA/Aa2	-	2,328,786	-	-	-	-
Corporate Notes	9,448,516	A/A2	-	232,379	1,583,010	2,013,866	4,210,041	1,409,220
Municipal Securities	240,046	A/A2	-	-	240,046	-	-	-
Supranationals	949,233	AA/Aa2	-	949,233	-	-	-	-
Total	<u>\$ 35,192,935</u>		<u>\$ 9,497,014</u>	<u>\$ 16,239,738</u>	<u>\$ 1,823,056</u>	<u>\$ 2,013,866</u>	<u>\$ 4,210,041</u>	<u>\$ 1,409,220</u>

\*\$149,312 of securities are rated as AAA by S&P, but not rated by Moody's. \$1,227,034 of securities are rated as AA+ by S&P, but not rated by Moody's. \$351,624 of securities are rated AAA by Fitch, but not rated by Moody's.

\*\*\$1,409,220 of securities are rated as A3 by Moody's, but rated A2 by S&P at time of purchase.

### 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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Federal Home Loan Banks	U.S. Agency Securities	\$ 4,552,855
Federal National Mortgage Association	U.S. Agency Securities	4,874,659
Federal Home Loan Mortgage Corporation	U.S. Agency Securities	3,029,835

### 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, 2020 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. Treasury Obligations	\$ 9,497,014	\$ -	\$ 9,497,014	\$ -
U.S. Agency Securities	12,729,340	-	12,729,340	-
Mortgage Obligations/Asset Backed	2,328,786	-	2,328,786	-
Corporate Notes	9,448,516	-	9,448,516	-
Municipal Securities	240,046	-	240,046	-
Supranationals	949,233	-	949,233	-
Total	<u>\$ 35,192,935</u>	<u>\$ -</u>	<u>\$ 35,192,935</u>	<u>\$ -</u>

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.

**Note 3 - Accounts Receivable**

Accounts receivable at June 30, 2020, consisted of the following:

Interest receivable and other receivable	\$ 42,212
Member assessments	<u>1,233,257</u>
Total Accounts Receivable	1,275,469
Member assessments considered non-current receivables	<u>(1,067,510)</u>
Current Accounts Receivable	<u><u>\$ 207,959</u></u>

**Note 4 - Accounts Payable**

Accounts payable at June 30, 2020, consisted of the following:

Trade accounts	\$ 8,185
Total Accounts Payable	<u><u>\$ 8,185</u></u>

**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:

	2020	2019
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 26,969,080	\$ 26,217,064
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	6,831,396	5,762,712
Increase/(decrease) in provision for insured events of prior fiscal years	1,747,635	(242,046)
Total incurred claims and claim adjustment expenses	8,579,031	5,520,666
Payments		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	3,940,718	4,768,650
	<u>\$ 31,607,393</u>	<u>\$ 26,969,080</u>

Adverse and favorable development of \$1,747,635 and (\$242,046) for the years ended June 30, 2020 and 2019, respectively, was primarily attributable to ongoing analysis of additional information that became available regarding the ultimate losses incurred for previous years.

The components of the unpaid claims and claim adjustment expenses as of June 30, 2020 and 2019 were as follows:

	2020	2019
Total	\$ 31,607,393	\$ 26,969,080
Current portion of unpaid claims and claim adjustment expenses	(4,951,456)	(4,951,456)
Unpaid claims and claim adjustment expenses, noncurrent	\$ 26,655,937	\$ 22,017,624

At June 30, 2020 and 2019, estimated unpaid losses of \$34,359,215 and \$29,391,811, respectively, are reflected at their net present values of \$31,457,393 and \$26,819,080, respectively, plus ULAE of \$150,000 and \$150,000, respectively. At June 30, 2020 and 2019, 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, 2020.



Required Supplementary Information  
June 30, 2020

# California Insurance Pool Authority



California Insurance Pool Authority  
Reconciliation of Claims Liabilities by Type of Coverage  
June 30, 2020

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	Liability	
	Current Year	Prior Year
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 12,844,228	\$ 13,946,294
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	4,828,464	3,683,231
Increase (decrease) in provision for insured events of prior fiscal years	1,759,204	(555,843)
Total incurred claims and claim adjustment expenses	6,587,668	3,127,388
Payments:		
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	3,281,118	4,229,454
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 16,150,778	\$ 12,844,228

Workers' Compensation		Total	
Current Year	Prior Year	Current Year	Prior Year
\$ 14,124,852	\$ 12,270,770	\$ 26,969,080	\$ 26,217,064
2,002,932	2,079,481	6,831,396	5,762,712
(11,569)	313,797	1,747,635	(242,046)
1,991,363	2,393,278	8,579,031	5,520,666
659,600	539,196	3,940,718	4,768,650
<u>\$ 15,456,615</u>	<u>\$ 14,124,852</u>	<u>\$ 31,607,393</u>	<u>\$ 26,969,080</u>

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.

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California Insurance Pool Authority  
Ten-Year Claims Development Information – Liability Program  
June 30, 2020

	June 30,					June 30,				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
(1) Required Contribution and Investment Revenue:										
Earned	\$ 6,233,743	\$ 5,002,193	\$ 4,773,505	\$ 5,934,271	\$ 5,505,079	\$ 6,628,269	\$ 6,810,107	\$ 7,310,953	\$ 7,727,141	\$ 10,141,769
Dividends	(421,547)	(421,548)	(421,549)	(482,930)	(482,930)	(275,395)	-	-	-	-
Ceded	(2,653,752)	(3,026,555)	(2,989,114)	(3,281,099)	(3,301,185)	(3,298,158)	(2,955,692)	(3,044,735)	(3,092,119)	(3,942,984)
Net earned	<u>3,158,444</u>	<u>1,554,090</u>	<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>	<u>4,635,022</u>	<u>6,198,785</u>
(2) Unallocated Expenses	<u>184,975</u>	<u>231,102</u>	<u>232,446</u>	<u>195,955</u>	<u>225,700</u>	<u>213,627</u>	<u>266,327</u>	<u>307,722</u>	<u>310,161</u>	<u>323,561</u>
(3) Estimated Claims and Expenses, End of Policy Year:										
Incurred	<u>2,647,225</u>	<u>1,654,749</u>	<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>	<u>3,683,231</u>	<u>4,828,464</u>
Net incurred	<u>2,647,225</u>	<u>1,654,749</u>	<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>	<u>3,683,231</u>	<u>4,828,464</u>
(4) Net Paid (cumulative as of):										
June 30, 2011	-	-	-	-	-	-	-	-	-	-
June 30, 2012	433,532	-	-	-	-	-	-	-	-	-
June 30, 2013	433,532	-	-	-	-	-	-	-	-	-
June 30, 2014	2,156,064	21,799	-	-	-	-	-	-	-	-
June 30, 2015	3,076,502	1,847,035	-	-	-	-	-	-	-	-
June 30, 2016	3,089,344	1,860,032	112,359	-	47,177	-	-	-	-	-
June 30, 2017	3,050,461	2,520,947	489,275	452,431	3,250,000	-	-	-	-	-
June 30, 2018	3,050,461	3,949,974	1,210,202	452,431	3,750,000	-	-	-	-	-
June 30, 2019	3,050,461	3,949,974	2,610,882	452,431	3,750,000	-	2,604,997	-	-	-
June 30, 2020	3,050,461	4,449,974	2,761,127	452,431	3,750,000	-	5,205,859	-	30,012	-
(5) Re-Estimated Ceded Claims and Expenses	-	-	-	-	-	-	-	-	-	-
(6) Re-Estimated Net Incurred Claims and Expenses:										
June 30, 2011	2,647,225	-	-	-	-	-	-	-	-	-
June 30, 2012	3,651,306	1,654,749	-	-	-	-	-	-	-	-
June 30, 2013	3,407,276	1,317,569	1,990,342	-	-	-	-	-	-	-
June 30, 2014	3,761,321	1,553,266	1,309,025	2,039,108	-	-	-	-	-	-
June 30, 2015	3,408,348	2,514,214	1,599,713	2,277,242	2,124,337	-	-	-	-	-
June 30, 2016	3,478,013	2,287,385	3,451,186	1,503,056	2,505,722	2,586,954	-	-	-	-
June 30, 2017	3,213,216	3,642,046	3,568,539	1,309,302	5,057,264	2,688,943	4,158,066	-	-	-
June 30, 2018	3,067,371	3,983,532	3,422,714	1,077,445	5,126,370	2,390,792	4,119,308	3,302,893	-	-
June 30, 2019	3,050,461	3,949,974	3,048,371	945,198	5,061,649	-	6,365,351	3,643,811	3,683,231	-
June 30, 2020	3,050,461	4,449,974	2,761,127	888,269	3,750,000	500,077	9,190,300	3,477,090	3,633,483	4,828,464
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ (403,236)</u>	<u>\$ (2,795,225)</u>	<u>\$ (770,785)</u>	<u>\$ 1,150,839</u>	<u>\$ (1,625,663)</u>	<u>\$ 2,086,877</u>	<u>\$ (5,032,234)</u>	<u>\$ (174,197)</u>	<u>\$ 49,748</u>	<u>\$ -</u>

California Insurance Pool Authority  
Ten-Year Claims Development Information – Workers Compensation Program  
June 30, 2020

	June 30,					June 30,				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
(1) Required Contribution and Investment Revenue:										
Earned	\$ 2,456,590	\$ 2,300,450	\$ 1,696,012	\$ 2,057,613	\$ 3,801,453	\$ 1,693,311	\$ 1,783,285	\$ 2,685,536	\$ 4,007,264	\$ 3,957,182
Ceded	(242,957)	(203,397)	(426,307)	(406,157)	(458,363)	(293,113)	(313,282)	(322,683)	(529,004)	(534,163)
Net earned	<u>2,213,633</u>	<u>2,097,053</u>	<u>1,269,705</u>	<u>1,651,456</u>	<u>3,343,090</u>	<u>1,400,198</u>	<u>1,470,003</u>	<u>2,362,853</u>	<u>3,478,260</u>	<u>3,423,019</u>
(2) Unallocated Expenses	<u>147,301</u>	<u>156,249</u>	<u>135,295</u>	<u>139,883</u>	<u>151,775</u>	<u>153,008</u>	<u>153,663</u>	<u>160,337</u>	<u>226,043</u>	<u>223,353</u>
(3) Estimated Claims and Expenses, End of Policy Year:										
Incurred	<u>2,694,249</u>	<u>1,306,328</u>	<u>862,234</u>	<u>1,367,907</u>	<u>1,630,425</u>	<u>1,982,104</u>	<u>2,052,233</u>	<u>2,597,318</u>	<u>2,079,481</u>	<u>2,002,932</u>
Net incurred	<u>2,694,249</u>	<u>1,306,328</u>	<u>862,234</u>	<u>1,367,907</u>	<u>1,630,425</u>	<u>1,982,104</u>	<u>2,052,233</u>	<u>2,597,318</u>	<u>2,079,481</u>	<u>2,002,932</u>
(4) Net Paid (cumulative as of):										
June 30, 2011	-	-	-	-	-	-	-	-	-	-
June 30, 2012	-	-	-	-	-	-	-	-	-	-
June 30, 2013	-	-	-	-	-	-	-	-	-	-
June 30, 2014	-	-	-	-	-	-	-	-	-	-
June 30, 2015	43,333	-	-	-	-	-	-	-	-	-
June 30, 2016	94,429	-	2,692	-	258,457	-	-	-	-	-
June 30, 2017	147,338	177,125	26,753	-	263,728	-	-	-	-	-
June 30, 2018	177,892	184,189	29,525	-	276,162	-	-	-	-	-
June 30, 2019	176,508	265,515	58,016	-	298,871	-	52,081	241,655	-	-
June 30, 2020	289,049	450,221	63,477	-	367,431	101,724	206,789	328,055	-	-
(5) Re-Estimated Ceded Claims	-	-	-	-	-	-	-	-	-	-
(6) Re-Estimated Net Incurred Claims and Expenses:										
June 30, 2011	2,694,249	-	-	-	-	-	-	-	-	-
June 30, 2012	1,019,759	1,306,328	-	-	-	-	-	-	-	-
June 30, 2013	880,057	871,245	862,234	-	-	-	-	-	-	-
June 30, 2014	732,173	1,207,638	1,162,429	1,367,907	-	-	-	-	-	-
June 30, 2015	766,770	984,359	876,466	921,243	1,630,425	-	-	-	-	-
June 30, 2016	668,416	1,120,076	779,083	919,974	1,219,075	1,982,104	-	-	-	-
June 30, 2017	448,381	1,093,446	666,166	810,166	1,268,907	1,874,410	2,052,233	-	-	-
June 30, 2018	572,971	1,428,440	357,896	698,104	1,293,547	1,509,091	2,019,011	2,597,318	-	-
June 30, 2019	471,254	1,614,160	1,139,499	425,113	1,463,683	1,440,734	2,088,997	2,684,790	2,079,481	-
June 30, 2020	361,821	1,919,941	1,134,328	548,806	1,461,840	1,441,984	2,066,160	2,583,095	2,070,942	2,002,932
(7) (Increase) Decrease in Estimated Incurred Claims and Expenses from the End of the Policy Year	<u>\$ 2,332,428</u>	<u>\$ (613,613)</u>	<u>\$ (272,094)</u>	<u>\$ 819,101</u>	<u>\$ 168,585</u>	<u>\$ 540,120</u>	<u>\$ (13,927)</u>	<u>\$ 14,223</u>	<u>\$ 8,539</u>	<u>\$ -</u>



Supplementary Information  
June 30, 2020

# California Insurance Pool Authority

California Insurance Pool Authority  
Combining Statement of Net Position  
June 30, 2020

	Liability	Workers' Compensation	Total
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	\$ 6,572,300	\$ 4,346,870	\$ 10,919,170
Receivables	182,272	25,687	207,959
Short-term investments	2,423,823	3,074,417	5,498,240
Total Current Assets	<u>9,178,395</u>	<u>7,446,974</u>	<u>16,625,369</u>
Noncurrent Assets			
Receivables	1,067,510	-	1,067,510
Investments	13,090,497	16,604,198	29,694,695
Total Noncurrent Assets	<u>14,158,007</u>	<u>16,604,198</u>	<u>30,762,205</u>
Total Assets	<u>23,336,402</u>	<u>24,051,172</u>	<u>47,387,574</u>
<b>Liabilities</b>			
Current Liabilities			
Accounts payable	6,632	1,553	8,185
Due members	-	8,110	8,110
Current portion of unpaid claims and claim adjustment expenses	3,883,495	1,067,961	4,951,456
Total Current Liabilities	<u>3,890,127</u>	<u>1,077,624</u>	<u>4,967,751</u>
Unpaid claims and claim adjustment expenses, noncurrent portion	12,267,283	14,388,654	26,655,937
Total Liabilities	<u>16,157,410</u>	<u>15,466,278</u>	<u>31,623,688</u>
<b>Net Position</b>			
Unrestricted	7,178,992	8,584,894	15,763,886
Total Net Position	<u>\$ 7,178,992</u>	<u>\$ 8,584,894</u>	<u>\$ 15,763,886</u>



California Insurance Pool Authority  
Combining Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended June 30, 2020

	Liability	Workers' Compensation	Total
Operating Revenues			
Contributions	\$ 8,716,148	\$ 2,921,814	\$ 11,637,962
Contributions-prior year assessments	517,996	-	517,996
Excess insurance	(1,681,861)	(534,163)	(2,216,024)
Joint purchase insurance	(2,261,123)	-	(2,261,123)
<b>Total Operating Revenues</b>	<b>5,291,160</b>	<b>2,387,651</b>	<b>7,678,811</b>
Operating Expenses			
Claims paid	3,281,118	659,600	3,940,718
Provision for loss reserves	3,306,550	1,331,763	4,638,313
Litigation management	63,106	-	63,106
Risk management services	171,789	171,789	343,578
Administration expenses	88,666	51,564	140,230
<b>Total Operating Expenses</b>	<b>6,911,229</b>	<b>2,214,716</b>	<b>9,125,945</b>
<b>Operating Income (loss)</b>	<b>(1,620,069)</b>	<b>172,935</b>	<b>(1,447,134)</b>
Nonoperating Revenues			
Investment earnings net of fees	907,625	1,035,368	1,942,993
<b>Increase (Decrease) in Net Position</b>	<b>(712,444)</b>	<b>1,208,303</b>	<b>495,859</b>
<b>Net Position, Beginning of Year</b>	<b>7,891,436</b>	<b>7,376,591</b>	<b>15,268,027</b>
<b>Net Position, End of Year</b>	<b>\$ 7,178,992</b>	<b>\$ 8,584,894</b>	<b>\$ 15,763,886</b>



**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***

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, 2020, and the related notes to the financial statements, which collectively comprise CIPA's basic financial statements, and have issued our report thereon dated October 23, 2020.

**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) as a basis for designing 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 statements. 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California  
October 23, 2020

None reported.

None reported.